

## Audit and Governance Committee

6.30pm on Tuesday, 15<sup>th</sup> November 2016  
in the Belle Vue Suite, Belle Vue Offices, Skipton

The Chairman (Councillor Harbron) and Councillors Barrett, Brockbank, Hull, Lis, Morrell, Place, Rose and Whitaker. Independent Person Mr G Robinson.

### AGENDA

**Exclusion of the Public:** In accordance with the Council's Access to Information Procedure Rules, Members are recommended to exclude the public from the meeting during consideration of Items 8ii and 10 on the grounds that it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in Paragraph 3 (relates to the financial or business affairs of any person including the Authority holding that information) of those Rules and Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

1. **Apologies for absence**
2. **Confirmation of Minutes** of meeting held on 27<sup>th</sup> September 2016. Note : A copy of the action check sheet for this meeting is also attached.
3. **Public Participation** – In the event that any questions/statements are received or members of the public attend, the public participation session will proceed for a period of up to fifteen minutes.
4. **Declarations of Interest** – All Members are invited to declare at this point any interests they have in items appearing on this agenda, including the nature of those interests and whether they wish to apply the exception below.

(Note: Declarations should be in the form of:  
a "disclosable pecuniary interest" under Appendix A to the (new) Code of Conduct, and  
"other interests" under Appendix B or under Paragraph 14 where a matter arises at the meeting which relates to a financial interest of a friend, relative or close associate, in which case the Member must leave the meeting room.

[Exception: Where a member of the public has a right to speak at a meeting, a Member of Council who has a disclosable pecuniary interest has the same rights and may make representations, answer questions or give evidence, but at the conclusion of that, must then leave the room and not take part in the discussion or vote.)

***Note of Agenda Item No. and type of Interest to be Declared at this Meeting:***

5. **External Audit : Annual Audit Letter** – Report of the External Auditor. Attached.

Purpose of Item – To enable the External Auditor to present the Annual Audit Letter 2015/16.

6. **Internal Audit (a) Implementation of Priority One Recommendations** – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached.

Purpose of Report – To update the Committee on implementation of internal audit recommendations.

**(b) Internal Audit Plan 2016-17 Progress Report** – Report of the Audit Services Manager. Attached.

Purpose of Item – To inform Committee Members about the work undertaken by Internal Audit in the period commencing 1<sup>st</sup> April 2016.

7. **Appointment of External Auditor : Sector Led Body** – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached.

Purpose of Item – To update Audit and Governance Committee on the appointment of Public Sector Audit Appointments Ltd (PSAA) as the approved sector-led body to procure future external audit contracts for local government.

8. **Internal Audit Reports** – Reports of the Audit Services Manager. Attached.

i. Treasury Management

ii. Fraud : Cipfa Code of Practice **Excluded item**

Purpose of Item – To present internal audit reports, including any which have been assigned either partial, or no assurance level status.

- 9 **Contract Procedure Rules : Exemption** – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached.

Purpose of Item – To seek the Committee's agreement to an exemption from contract procedure rules.

- \$10. Corporate Risk Register : Update** – Report of the Strategic Manager Financial Services and Section 151 Officer. Attached. **Excluded item**

Purpose of Item – To update the Committee on corporate risk register action plan progress and changes.

11. **Any other items** which the Chairman decides are urgent in accordance with Section 100B(4) of the Local Government Act, 1972.

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7<sup>th</sup> November 2016.

## **Emergency Evacuation Procedure**

In case of an emergency or if the alarm sounds, leave the meeting room and leave the building using the nearest available door. The assembly point is in the main square at the front entrance. An officer will take a roll call at that point.

Members of the Council : Please do not leave without telling the Chairman or the Democratic Services Section's representative.

## **Recording at Council Meetings**

Recording is allowed at Council, committee and sub-committee meetings which are open to the public, subject to

- (i) the recording being conducted with the full knowledge of the Chairman of the meeting; and
- (ii) compliance with the Council's protocol on audio/visual recording and photography at meetings, a copy of which is available on request. Anyone wishing to record must contact the Agenda Contact Officer (details above) prior to the start of the meeting. Any recording must be conducted openly and not disrupt proceedings.

## **Committee Terms of Reference**

### **(a) In relation to internal and external audit activities, to:**

- draw together the key components of corporate governance in relation to audit; promoting internal control, focusing audit resources and monitoring the management and performance of the providers of Internal Audit Services;
- consider the Annual Report and Opinion from Internal Audit, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements;
- consider summaries of specific internal audit reports focusing on those areas that receive 'limited assurance';
- consider a report from Internal Audit on the implementation status of agreed recommendations;
- consider the External Auditor's Annual Letter, relevant reports, plans, and report to those charged with governance;
- consider specific reports as agreed with the External Auditor;
- comment on the scope and depth of External Audit work and to ensure it gives value for money;
- liaise with the Audit Commission over the appointment of the Council's External Auditor; and
- approve the annual work programmes for Internal and External Audit and, in exceptional cases, to have the ability to commission work directly from audit providers.

### **(b) In relation to the Council's regulatory framework, to:**

- ensure the effective development and operation of corporate governance within the Council and to maintain the Council's Constitution : the Standards Committee to be consulted on the review of any codes and protocols that relate to the ethical framework;
- review issues referred to it by the Chief Executive, Director, Corporate Head or any Council body;
- approve the corporate risk management framework in accordance with the Risk Management Strategy and Policy Statement; and monitor the effective development and operation of the risk management process: make any necessary changes to the process,

- including any recommendations for changes to the Strategy and Policy Statement;
- monitor Council policies on 'Whistle-blowing' and the Anti-fraud and Anti-corruption strategy;
- monitor progress on implementation of Internal Audit recommendations;
- oversee the production of the authority's Statement on Internal Control and to recommend its adoption to the Policy Committee / Council;
- consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice; and
- consider the Council's compliance with its own and other published standards and controls.
- Monitor the use of the Regulation of Investigatory Powers Act 2000.

**(c) In relation to the Council's Financial Statements / Accounts, to:**

- review and approve the annual Statement of Accounts, including whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Policy Committee / Council
- consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

**(d) Under Part 4 (Parishes), Chapter 3 (Reorganisation) of the Local Government and Public Health Act 2007 (and any amending legislation):**

- to be responsible for conducting community governance reviews within the District.

**AUDIT AND GOVERNANCE COMMITTEE**

27<sup>th</sup> September 2016

**Present** – The Chairman (Councillor Harbron) and Councillors Barrett, Lis, Morrell, Place and Whitaker. Independent Person : Greg Robinson.

**Officers** – Solicitor to the Council, Senior Accountant and Committee Officer.

Apologies for absence were received from Councillors Brockbank and Rose.

Start: 6.30pm

Finish: 7.15pm

Councillor Lis arrived at 6.40pm

The minutes of the Committee's meeting held on 21<sup>st</sup> June 2016 were confirmed and signed by the Chairman.

Note : At Minute AC.259(b) the Committee had requested that Members be provided with a written summary of action taken in response to the security risks in respect of the archive store, together with a copy of the action plan for addressing any outstanding issues. Members indicated that they had not received the written summary or copy of the action plan and re-affirmed their request.

**Minutes for Report**

AC.266

**EXTERNAL AUDIT – AUDIT COMPLETION REPORT**

Further to Minute AC.241/15-16, the Chairman welcomed Cameron Waddell, Director and Engagement Lead, of Mazars LLP, who was accompanied by Nicola Hallas, Manager, also of Mazars, the Council's external auditors.

In presenting the Audit Completion Report for the year ended 31<sup>st</sup> March 2016, copies of which had been circulated, Ms Hallas summarised the report's key findings and indicated that the audit had not identified any material issues they would need to bring to the Committee's attention; an unqualified opinion would be issued in respect of the Council's statement of accounts. The audit had also concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

In responding to comments made, Mr Waddell indicated that the Council continued to show improvement in the production of its accounts, but drew attention to the following points

- a. the need to incorporate a thorough review process into the accounts close down procedures, using risk assessment to help focus quality assurance checks on those elements where concerns had been previously identified;
- b. communication with the Council's Valuer should be reviewed to ensure terms of engagement were clear and enforced; and
- c. in preparing the statement of accounts the Council relied on experts for some elements, the Council should review the input provided by those experts.

In drawing their presentation to a close Mr Waddell thanked the Senior Accountant and the Accountancy Team for their co-operation over the course of the year.

**Resolved** – (1) That the Audit Completion Report for the year ended 31<sup>st</sup> March 2016 is accepted

(2) That the required Management Representations Letter in respect of the audit is approved for signing by the Section 151 Officer and submission to Mr Waddell.

(3) That the External Auditors and the Financial Services Team are thanked and complimented on the work undertaken by them over the course of the last financial year.

AC.267

**DRAFT ANNUAL GOVERNANCE STATEMENT 2015-16**

Further to Minute AC.260/16-17, the Strategic Manager for Financial Services submitted a report presenting the final Annual Governance Statement for 2015/16 which would form part of the Annual Statement of Accounts 2015/16. As previously reported the draft Statement had been compiled following CIPFA guidance.

Members were reminded that at Minute AC.260 the Committee had approved the draft statement pending a review to ascertain if additional information was required as a consequence of changes to CIPFA's Good Governance Framework. That review had been carried out and no changes were required for the 2015/16 year. It was pointed out that following the Committee's last meeting in June 2016 an outstanding internal audit Priority 1 recommendation in respect of Bereavement Services (raising and recording credit notes IA 15/16 239) had been completed.

The Committee was asked to approve the final Statement.

**Resolved** – That the Annual Governance Statement 2015/16 is approved as now presented.

AC.268

**STATEMENT OF ACCOUNTS 2015-16**

Further to Minute AC.240/15-16, the Strategic Manager for Financial Services submitted a report presenting the Council's audited Statement of Accounts for 2015/16, together with explanatory notes to the core financial statements therein. The following points within the accounts highlighted major movements in the Statement for 2015/16 as compared to 2014/15:-

Net cost of services had increased by £865,000 to £6,352,000 (2014/15 £5.487m).

There was a surplus on the provision of services of £189,000 (2014/15 £1.105m).

Total reserves had increased by £5,906,000 to £14,031,000 (2014/15 £8.125m).

The General Fund balance had reduced by £35,000 to £995,000.

Earmarked reserves had increased by £171,000 to £5,786,000 (2014/15 £5.615m).

It was pointed out that the accounts had been made available for public inspection from 1<sup>st</sup> July to 11<sup>th</sup> August 2016; no queries had been received. During the course of the ensuing discussion, the Independent Person highlighted the relevance of the Pension Fund in terms of the potential significant effect on the Council's accounts, he suggested that a member training / briefing session on the Fund may be of some value.

**Resolved** – That the audited Statement of Accounts for 2015/16 are approved.

**Minutes for Decision**

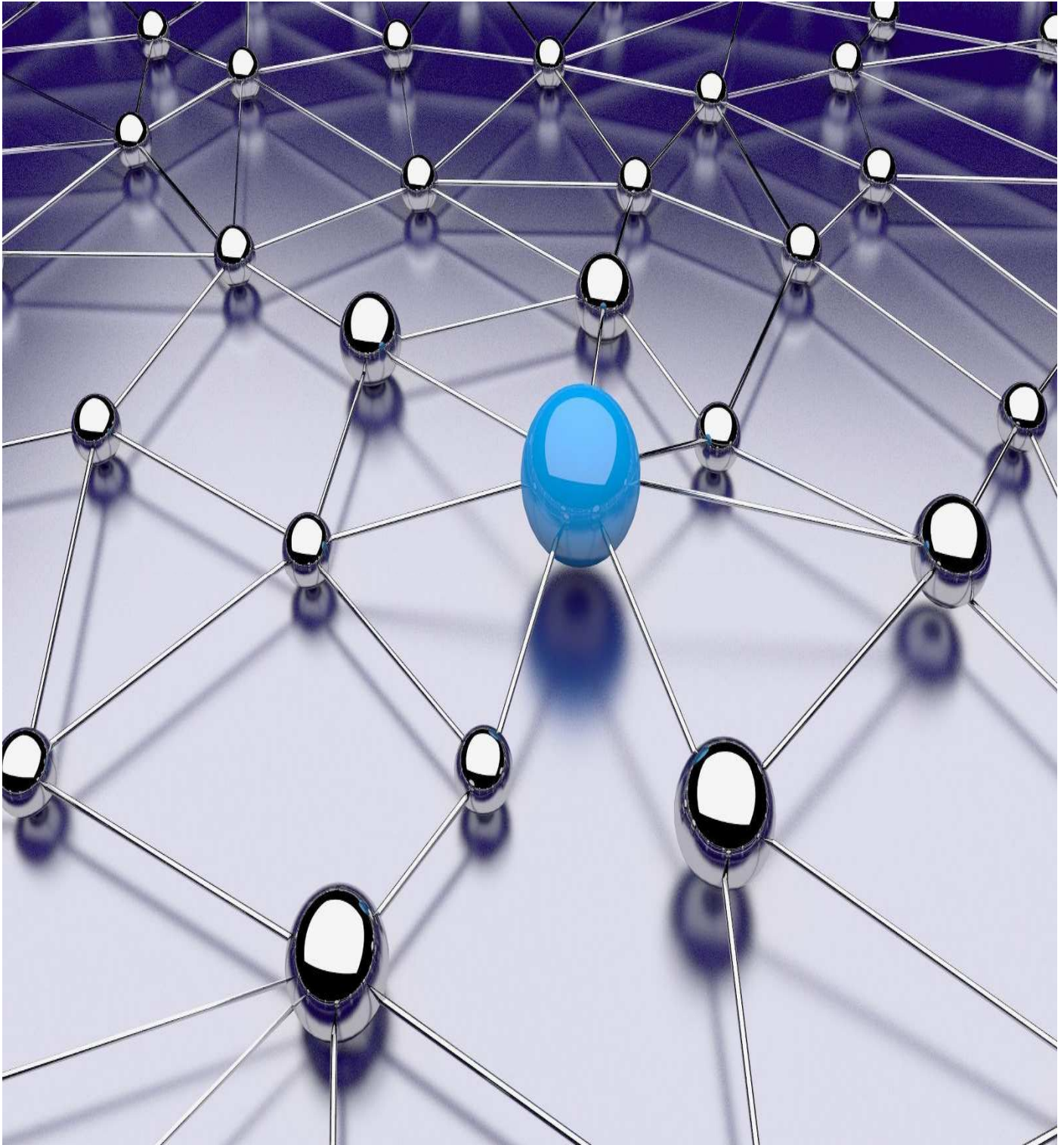
- None -

Chairman.

# Craven District Council

## Annual Audit Letter 2015/16

October 2016





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Durham  
DH1 5TS

19 October 2016

Members  
Craven District Council  
1 Belle Vue Square  
Broughton Road  
Skipton  
North Yorkshire  
BD23 1FJ

Dear Members

**Annual Audit Letter 2015/16**

I am pleased to present our Annual Audit Letter for the 2015/16 audit year. The purpose of this document is to summarise the outcome of the external audit of Craven District Council's 2015/16 financial statements and our review of your arrangements for securing economy, efficiency and effectiveness (VfM).

We carried out our audit in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Local Audit and Accountability Act 2014.

I would like to express my thanks for the assistance of all the finance team at Craven District Council as well as management and the Audit and Governance Committee.

If you would like to discuss any matters in more detail, please do not hesitate to contact me on 0191 383 6314.

Yours faithfully

**Cameron Waddell**  
Partner  
Mazars LLP

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# 01

## Key messages

This Annual Audit Letter summarises the findings from our 2015/16 audit of Craven District Council.



# 01 Key messages

In 2015/16, our audit of Craven District Council (the Council) was made up of two elements:

- auditing your financial statements, including a review of the Governance Statement; and
- assessing your arrangements for achieving value for money (VfM) in your use of resources.

We reported the detailed findings from our audit work to the Audit and Governance Committee (those charged with governance) in our Audit Completion Report on 27 September 2016.

We also completed our work on your whole of government accounts return. The key conclusions for each element are summarised below.

## **Audit of the financial statements**

We issued an audit report including an unqualified opinion on the Council's financial statements on 28 September 2016. Our audit progressed smoothly and we did not encounter any significant issues whilst undertaking our work. We identified a number of errors impacting the primary statements and also the disclosures, which were subsequently amended in the financial statements. These are set out in more detail in section 02.

We would like to highlight the support we received from staff at the Council in undertaking our work.

## **Value for money**

We carried out our work in line with updated National Audit Office guidance and concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We therefore issued an unqualified value for money conclusion on 28 September 2016.

## **Assurance to the National Audit Office**

We issued our certificate, closing this year's audit, on 28 September 2016 on completion of our work on your Whole of Government Accounts return. There were no matters to report.

# 02

## Financial statements

Craven District Council's financial statements required several amendments.



# 02 Financial statements

## Audit of the financial statements

We audited the Council's financial statements in line with auditing standards and we reported the detailed findings of the audit to the 27 September 2016 Audit Committee in our Audit Completion Report. We issued an audit report including an unqualified opinion on the Council's financial statements on 28 September 2016.

As in previous years, the audit progressed smoothly, although several audit amendments were identified, particularly in relation to Property, Plant and Equipment. The Council presented us with draft financial statements in accordance with the national deadline which were of reasonable quality and working papers were provided as requested.

There was one error above our reporting threshold that was not amended by management with a value of £48k. This related to the overstatement of income relating to reimbursement of flood relief grants. This error arose following incorrect communication from a local authority regarding the level of expenditure that could be reclaimed by the Council.

There was an adjustment in relation to Property, Plant and Equipment of £2.8 million due to a reclassification and revaluation of an asset not previously identified as Surplus. In line with Financial Reporting changes relating to the adoption of IFRS 13, the asset should have been held at its highest and best use value.

There was an amendment to increase the valuation of property, plant and equipment to reflect the revaluation of Coach Street Car Park and the associated Public Conveniences that were revalued by Eddisons' in the period but the transaction had not been performed by the Council.

There was an adjustment to the cash balance to reflect the misclassification of Debtors rather than Cash at bank and in hand.

There were also a number of disclosure amendments that were corrected by management.

Our work on the Council's accounts is designed to provide reasonable assurance that they are free from material misstatement. The assessment of materiality is a key part of our work and we specify an overall materiality threshold, based upon two per cent of the the Council's gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as the Senior Officers' remuneration. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculation when we received the draft accounts and set the overall level at £475,000. Appendix A provides more information on our approach.

Having considered the risks of material misstatement, we identified four areas of significant risk, the first two of which are present in most audits. Our findings in this area are summarised below:

## Management override of controls

### Description of the risk

Auditing standards state that management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits. This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

### How we addressed this risk

We updated our understanding and evaluation of internal controls procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this, we sought written assurances from the Audit and Governance Committee and management on their controls and processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to, and report fraud.

Our testing strategy for this significant risk due to fraud included:

- journals recorded in the general ledger and other adjustments made in preparation of the financial statements;
- consideration and review of material accounting estimates impacting on amounts included in the financial statements;
- consideration and review of any unusual or significant transactions outside the normal course of business; and
- consideration of any other local factors.

### Audit conclusion

Our work provided the assurance we sought and did not highlight any material issues.

## Revenue recognition

### Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition and in relation to judgements made by management as to when income has been earned. Mazars' policy is that the scope to apply such a rebuttal is limited. As there is an inherent risk of fraud in revenue recognition we consider it to be a significant risk on all audits. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

### How we addressed this risk

We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:

- testing income and receipts in March to May 2016 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

### Audit conclusion

Our work provided the assurance we sought and did not highlight any material issues, except for the unadjusted misstatement set out below. We carried out sufficient work to conclude this was an isolated error.

## Pension entries (IAS19)

### Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

### How we addressed this risk

We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:

- evaluated the management controls in place to assess the reasonableness of the figures provided by the actuary; and
- considered the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally, which is commissioned by the National Audit Office.

### Audit conclusion

Our work provided the assurance we sought and has not highlighted any material issues.

## Valuation of Property, Plant and Equipment (PPE)

### Description of the area of management judgement

Accounting standards and CIPFA's Code of Practice on Local Authority Accounting require that all property, plant and equipment (PPE) are carried at fair value on the Council's Balance Sheet. PPE must be revalued regularly and impairment reviews completed. There is also the requirement that PPE is depreciated, unless there is a specific exception. The value of the Council's PPE is material to the accounts and involve management judgements over the valuations and useful lives of assets.

### How we addressed this area of management judgement

We evaluated the design and implementation of controls in respect of depreciation, revaluations and impairments as part of our walkthrough of the property, plant and equipment system. In addition, we undertook a range of substantive procedures including:

- substantive sample testing of depreciation, revaluations and impairments per the disclosure note to the financial statements;
- reviewing and evaluating of the work of the external valuer, including the valuer's report;
- consideration of regional valuation trends; and
- specific follow up of the areas subject to material error in previous years.

### Audit conclusion

In the course of our work we identified a number of amendments which in aggregate were over our materiality threshold. We obtained the assurance we sought following the processing of these amendments.

## Annual Governance Statement

The aim of the Annual Governance Statement is to give an overview of the governance arrangements in place during the year as well as any potential significant governance issues arising.

We reviewed the Annual Governance Statement to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Council. We found no areas of concern to report in this context.



## **Weaknesses in internal control**

Our audit work identified two medium level deficiencies in internal control:

- We noted several amendments, that we would have expected to be identified and rectified by the finance team prior to submission of the financial statements for audit. Management should incorporate a thorough review process into the accounts closedown procedures.
- Communication with the external valuer led to a valuation being provided for some public conveniences, which were not in the originally planned list of assets due for valuation in the period. The movement on the asset was significant and as such caused an audit adjustment. Contract Management and communication with the valuer should be reviewed to ensure the Terms of Engagement are clear and enforced.

## **Assurance to the National Audit Office**

We issued our certificate, closing this year's audit, on 28 September 2016 on completion of our work on your Whole of Government Accounts return. There were no matters to report.

# 03

## Value for money

Craven District Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.



# 03 Economy, efficiency and effectiveness

We are required to conclude whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

*'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'*

The three sub-criteria are set out below.

Sub-criteria
Informed decision making
Sustainable resource deployment
Working with partners and other third parties

Like other public sector bodies, the Council faces a number of challenges and we identified a significant risk to the 'sustainable resource deployment' criterion as set out in the table below:

VFM risk
<p><b>Description of the risk</b></p> <p>The Council is facing continued decreases in central government funding. The Council's Medium Term Financial Plan (MTFP) shows that savings of £0.7 million are required in 2017/18 with further savings of £0.9 million in 2018/19 also being necessary. Whilst the Council has a good record of achieving savings it is acknowledged that further savings are likely to be difficult to achieve.</p> <p>The level of savings the Council needs to achieve over the period of its MTFP represents a significant risk to the sustainable resource deployment criteria in our value for money conclusion.</p>
<p><b>How we addressed this risk</b></p> <p>In light of the revised guidance issued by the NAO for 2015/16, we undertook a programme of work that allowed us to conclude whether the Council has arrangements in place to identify and deliver the required cost savings as set out in its MTFP. This included a review of:</p> <ul style="list-style-type: none"><li>• the Medium Term Financial Plan and the reasonableness of the assumptions that underpin it;</li><li>• the arrangements in place to deliver the overall budget in 2016/17; and</li><li>• arrangements in place to identify, evaluate, risk assess and deliver future savings plans.</li></ul>
<p><b>Conclusion</b></p> <p>Overall we concluded the Council has appropriate arrangements in place to achieve the level of savings required. Our work provided us with assurance to mitigate the identified risk.</p>

As part of our work, we also:

- reviewed the Council’s annual governance statement;
- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out risk-based work we determined appropriate.

Our review of these areas did not identify any further risks, or matters that impact on our value for money conclusion.

A brief summary of our findings against each of the sub-criteria and our overall assessment is set out in the sections that follow.

Sub-criteria	Aspect	Commentary
<b>Informed decision-making</b>	Acting in the public interest, through demonstrating and applying the principles and values of sound governance.	<ul style="list-style-type: none"> <li>• The Council has an established Constitution which is subject to regular review. This clearly details the governance structure of the Council. The Council has an active Audit and Governance Committee.</li> </ul>
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.  Reliable and timely financial reporting that supports the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>• The Council continues to produce regular finance reports which are presented throughout the financial year to the Policy Committee. Reports are easy to read and clearly set out the financial position of the Council. The year-end position is not significantly different to that forecast during the year.</li> </ul>
	Managing risks effectively and maintaining a sound system of internal control.	<ul style="list-style-type: none"> <li>• The Council’s Audit and Governance Committee receives regular updates on the top risks facing the council. The Council’s Financial Strategy identifies the risks associated with the plan. Risk management arrangements are in place. The Council has a comprehensive Internal Audit plan and Internal Audit provide reports at each Audit and Governance Committee meeting.</li> </ul>

Sub-criteria	Aspect	Commentary
<b>Sustainable resource deployment</b>	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	<ul style="list-style-type: none"> <li>Financial and performance reports demonstrate a history of achieving financial targets. The Council has a Medium and Long Term Financial Plan covering the period up to 2023/24. This has been updated to reflect funding settlements.</li> <li>The strategies are reviewed and updated, as a minimum on an annual basis. The Strategies are designed to ensure the Council has sufficient resources to achieve the Council's aims and priorities. The Financial Strategies include reasonable assumptions and identifies the financial pressures the Council will face in coming years. The Financial Strategy clearly sets out the savings the Council will need to achieve up to 2023/24. Whilst the Council has a good record of achieving its budgets, including challenging savings levels, there is recognition that achieving these savings will be a significant challenge and risk to the Council.</li> <li>The level of reserves are considered by the Council to be at a sufficient level. Earmarked reserves are reviewed annually to ensure that balances earmarked for specific schemes are still relevant</li> </ul>
	Managing and utilising assets effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>The Council has an approved Capital Programme for 2016/17 to 2019/20. The capital programme sets out an approved capital spend of £1.53 million for 2016/17. As part of the capital programme monitoring, a business case is required by the Corporate Leadership Team for each project, prior to the funding being released.</li> </ul>
	Planning, organising and developing the workforce effectively to deliver strategic priorities.	<ul style="list-style-type: none"> <li>HR policies and procedures in place.</li> <li>Regular sickness information and reports are provided to Corporate Management Team (CMT), Human Resources Service Group (HRSG) and Heads of Service in all departments. HR analyse sickness data and identify any appropriate actions to support particular services or reasons/patterns of absence.</li> </ul>

Sub-criteria	Aspect	Commentary
<b>Working with partners and other third parties</b>	Working with third parties effectively to deliver strategic priorities.	<ul style="list-style-type: none"> <li>The Council has a track record of working with partners.</li> <li>Reporting on significant partnerships is incorporated into the Performance Monitoring Reports.</li> </ul>
	Commissioning services effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>The Council's Constitution details the arrangements for contracting with third parties.</li> </ul>
	Procuring supplies and services effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>The Council has a Procurement Strategy in place and Contract Procedure Rules in place. There are numerous policies which support the Procurement Strategy, including Tendering Policies. These procedures are designed to ensure supplies and services are procured effectively.</li> </ul>

Having gathered evidence of the Council's arrangements for each of the sub-criterion we conducted a 'reality check', building upon our existing knowledge of the Council and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Our findings from our review of these areas are shown below:

Evidence	Auditor Assessment
Reports by statutory inspectorates or other regulators	<p>We are not aware of any statutory inspections or other regulators reports which are applicable to the 2015/16 value for money conclusion.</p> <p>We reviewed the value for money profiles (based on data from Public Sector Audit Appointments). Based on this review, there were no indicators which would suggest weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council.</p>
Achievement of performance and other targets	<p>We reviewed the latest performance reports and identified no matters suggesting a weakness in the Council's arrangements or any information contrary to our knowledge of the Council.</p>
Performance against budgets and other financial targets	<p>The Council has a history of achieving budget targets.</p>

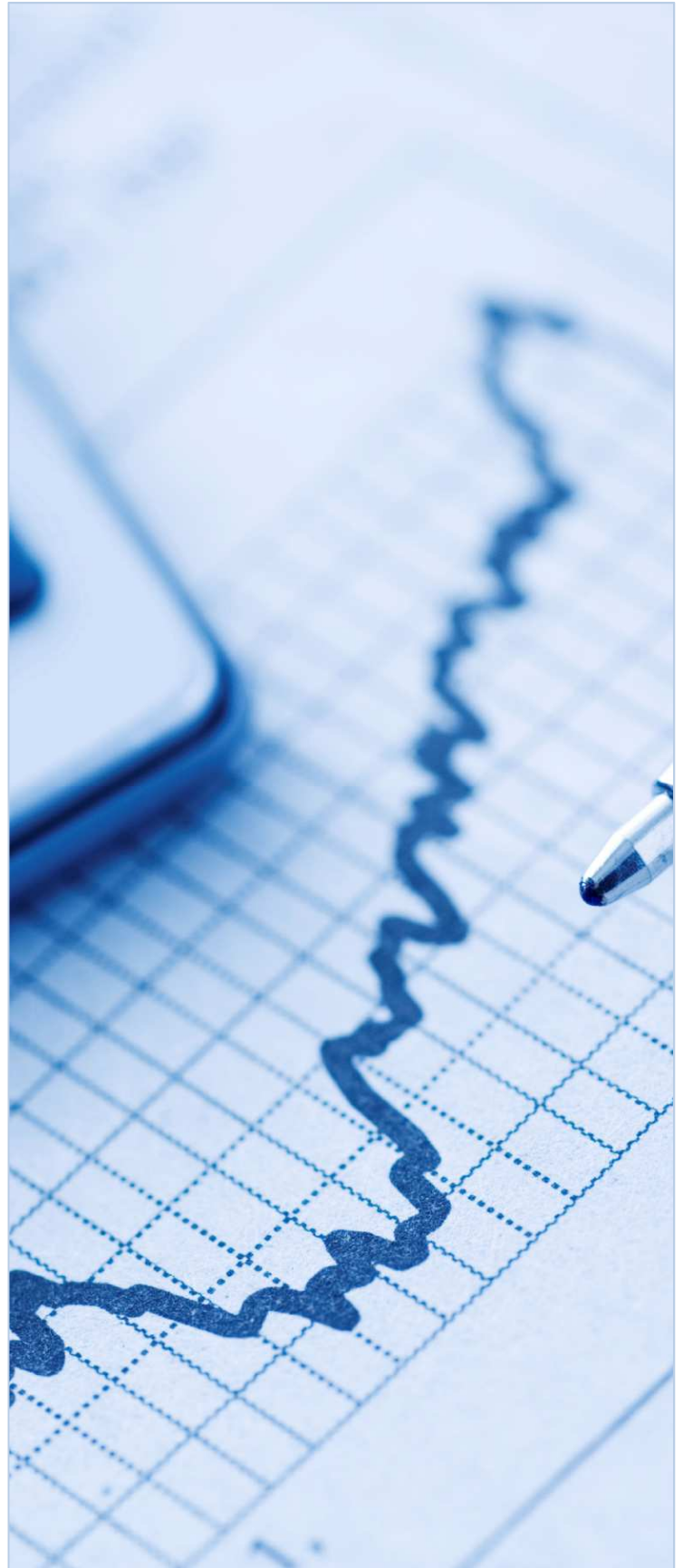
## Conclusion

We concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 28 September 2016.

# 04

## Future challenges

Craven District Council are facing a number of challenges over the next few years.





# 04 Future challenges

The main challenge we see for the Council, along with others and the wider public sector, is the continued pressure on finances and the need to plan for further reductions in spending power which will make it increasingly difficult to maintain the existing level of service provision. We have noted how the Council has dealt with this challenge so far and expect there to be a need for difficult decisions to ensure spending is kept within available resources.

The Council has set a balanced budget for 2016/17 but is working to deliver this challenging budget and to identify further plans to bridge funding gaps for 2017/18 (£626,000) and 2018/19 (£894,000) as set out in the Council's Long Term Financial Strategy.

The major challenges facing the Council in the coming years include:

- sustaining income levels;
- containing expenditure within budget parameters;
- realising savings that have been built into the budget and delivering the projects on the income and savings plan going forward; and
- the continued uncertainty around the business rates retention scheme.

Our 2016/17 audit will focus on the risks that these challenges present to the Council's financial statements and its ability to maintain proper arrangements for securing value for money.



# 05

## Fees and closing remarks

The 2015/16 audit was delivered within the scale fee set by Public Sector Audit Appointments Limited.



# 05 Fees and closing remarks

We can confirm the final audit fee for 2015/16 was £52,879 plus VAT. This is broken down as follows:

Area of work	Fee
Code audit work	£45,819
Housing Benefit Subsidy certification	£7,060
Total fees	£52,879

We confirm that we did not undertake any non-audit work during the year.

We have discussed and agreed this letter with officers and will present it to the Audit and Governance Committee on 15 November 2016.

During the audit year we have continued to support the Council in other ways, including attendance at Audit and Governance Committees where we inform the Committee about progress on the audit, report our key findings and update it about developments in the sector and the wider environment.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the the Council during the year, which are summarised below.

Report	Date issued
2015/16 Audit Fee Letter	April 2015
Audit Strategy Memorandum	April 2016
Audit Completion report	September 2016
Auditor's Report (opinion, VfM conclusion and certificate)	September 2016
Annual Audit Letter	October 2016

The Council has continued to take a positive and constructive approach to our audit and I wish to thank the Audit and Governance Committee for their continued support and co-operation throughout the year. We would also like to record our appreciation for the assistance and co-operation provided to us during our audit by finance staff.

We are committed to supporting the Council to move forward with clarity of purpose and strong governance and accountability arrangements. We will meet with the officers to identify learning from the 2015/16 audit and will continue to share our insights from other client and relevant knowledge from the wider public and private sector.

**Cameron Waddell**  
**Partner**  
**October 2016**

# Appendix A – Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £460,000 (2% of gross revenue expenditure) with a clearly trivial threshold of £14,000 below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £475,000 with a clearly trivial threshold of £14,000 below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.

Should you require any further information, please do not hesitate to contact:

Cameron Waddell  
Partner

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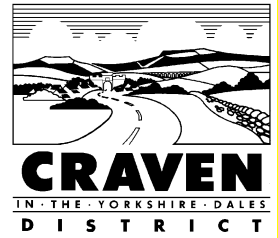
F: +44 (0)191 383 6350

This Annual Audit Letter is prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. It is addressed to the Audit Committee on behalf of those charged with governance of Craven District Council. We, as appointed auditor, take no responsibility to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners’ names is available for inspection at the firm’s registered office, Tower Bridge House, St Katharine’s Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.

## Audit and Governance Committee – 15 November 2016



### Internal Audit – Implementation of Recommendations

Report of the Corporate Head, Financial Management

Ward(s) affected: All

- 1 **Purpose of Report** – To update committee members on priority one internal audit recommendations outstanding and those completed in the period.
- 2 **Recommendations** – Members are recommended to:
  - 2.1 Note the contents of Appendix A – Outstanding Priority One Internal Audit Recommendations and consider inviting responsible officers to the next meeting where appropriate.
  - 2.2 Note the contents of Appendix B – Audit Recommendations Completed in the Period and approve the contents of that Appendix. Recommendations will not be archived before this approval is received together with that of the Audit Services Manager, Shared Audit Service.
- 3 **Implications**
  - 3.1 **Financial and Value for Money (vfm) Implications** – as highlighted for individual recommendations in Internal Audit Reports
  - 3.2 **Legal Implications** - none
  - 3.3 **Contribution to Council Priorities** – not applicable
  - 3.4 **Risk Management** – as highlighted for individual recommendations in Internal Audit Reports
  - 3.5 **Equality Analysis** – not applicable
- 4 **Consultations with Others**

Senior Managers/Action Owners
- 5 **Access to Information: Background Documents**

None
- 6 **Author of the Report**

Rebecca Steel, Performance Management Officer  
Telephone: 01756 706215  
e-mail: rsteel@cravenc.gov.uk

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.
- 7 **Appendices** –

Appendix A – Outstanding Priority One Internal Audit Recommendations  
Appendix B – Audit Recommendations Completed in the Period

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**Appendix A – Outstanding Priority One Internal Audit Recommendations**

Priority 1 Recommendations relate to significant gaps in the Internal Control Framework.  
Recommendations are included where the original completion date was prior to November 2016.

Source Report	Recommendation Name	Original Target Date	Service Area	Status		Latest Update	Updated by	Date
C4 08 - Data Protection 2013/14 - Priority 1 C5 08 - ICT Review of Outstanding Actions - Priority 1	IA 16/17 157 A clearly owned information asset inventory should be developed and maintained. Once developed, identified information asset owners should ensure that risks and opportunities are monitored	C4 08 Data Protection - Aug 2014 C5 08 ICT Review of Outstanding Actions - Apr/Sep 2015 A&G Nov 15 - Dec 2015	ICT	Amber		Further work has been undertaken to develop the inventory and it is now anticipated that this will be completed by 31 December 2016.	DRN	02/11/16
C6 01 - Building Control - Priority 1	IA 16/17 227 A replacement for the Fast Control system should be timetabled for implementation as soon as possible	C6 01 - Feb 2016	Planning & Building Control	Amber		The procurement for a single solution for Planning, Building Control, Environmental Health, Licensing & Waste Management has been completed. Implementation is planned to start in January 2017 and system to be implemented for all services by December 2017.	DM	02/11/16
C6 04 - Bereavement Services - Priority 1	IA 16/17 245 Access levels should be set up on the BACAS system	C6 04 - Jan 2016	Bereavement Services	Amber		We are currently working with BACAS to achieve this. Access levels as appropriate should now be introduced by the end of June.	MB	28/04/16
C6 08 - Physical Security of ICT Equipment and Data - Priority 1	IA 16/17 256 There should be appropriate arrangements put in place to ensure that the Belle Vue Square ground floor alarm is set in any absence of the Caretaker	C6 08 - Mar 2016	Property Services	Amber		The Council has a number of alarms from different suppliers across its property portfolio. The intention is to rationalise them. In the interim a meeting with the BVS alarm company has been arranged and an order placed to alarm the Registrars Zone whilst a practicable solution is sought to keep flexibility of access in other areas. PO issued for additional alarm for ground floor of BVS. New alarm as per above now installed and operational.	IH	04/10/16

Version No	<b>AGENDA ITEM 6a</b>
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C6 08 - Physical Security of ICT Equipment and Data - Priority 1	IA 16/17 257 Cabinets containing personal data should be locked at night	C6 08 - Aug 2016	ICT	Amber		Locking of cabinets - to be discussed at the forthcoming Corporate Information Governance Group in November with a view to agreeing implementation across the Council by 31 March 2017.	DRN	02/11/2016
C6 08 - Physical Security of ICT Equipment and Data - Priority 1	IA 16/17 259 Arrangements should be made to ensure that any data of a personal and/or sensitive nature held in the chapel office is stored securely	C6 08 - Aug 2016	Bereavement Services	Amber		A review of filing storage has been undertaken and VDU screens relocated. Locked storage alternatives are now being considered.	MB	28/04/16
C6 08 - Physical Security of ICT Equipment and Data - Priority 1	IA 16/17 263 The security and condition of the Engine Shed Lane archive store should be assessed in terms of its adequacy for data storage and appropriate action taken	C6 08 - Mar 2016	ICT	Amber		A review of the security and associated issues in relation to the archive store has been completed. Improvements are being implemented, and a separate report is being provided to the Audit and Governance Committee meeting to be held on 15 November 2016. It is anticipated that this recommendation will be implemented by 31st March 2017.	DRN	02/11/2016



## Appendix B – Audit Recommendations Completed in the Period

Source Report	Recommendation Name	Original Target Date	Service Area	Status		Latest Update	Updated by	Date
C5 05 - Officer Expenses - Priority 2	IA 16/17 176 Update the requirements stipulated in the policy with regards to registration documents	C5 05 - Mar 2015	Financial Management	Green		Travel and Subsistence Policy updated and approved at CLT July 2016. Following consultation, final version now in place and circulated to staff and Members.	CH	12/10/16
C5 05 - Officer Expenses - Priority 2	IA 16/17 180 A slight amendment is required to the policy to include a requirement for journey start and end destinations.	C5 05 - Mar 2015	Financial Management	Green		Travel and Subsistence Policy updated and approved at CLT July 2016. Appropriate amendments made to policy and claim forms to ensure start and end points are noted on claims. Following consultation, final version now in place and circulated to staff and Members.	CH	12/10/16
C5 05 - Officer Expenses - Priority 2	IA 16/17 184 Authorisers should be reminded of their responsibilities for the approval of claims	C5 05 - Jan 2015	Financial Management	Green		Travel and Subsistence Policy/Forms revised and approved by CLT July 2016. Policy and claim forms revised to ensure authorisers are clear on responsibilities for approval of claims.	CH	12/10/16
C5 07 - CDC Parking Management & Civil Parking Enforcement Arrangements since December 2013 - Priority 2	IA 16/17 197 A list of car park machine key holders should be maintained. If possible a list should be obtained from G4S	C5 07 - Apr 2015	Property Services	Green		List of key holders now in place. It is not possible for CDC to maintain a list of individual employees from cash collection company as these are subject to frequent change. Cash collection company hold the keys centrally and once the jobs are allocated daily keys are distributed accordingly. The cash collection company maintain their own list of employees assigned to jobs. Action complete.	HS	13/10/16
C6 02 - Transparency - Priority 3	IA 16/17 223 The publication scheme document should be reviewed to ensure that all references and web page links are accurate and up to date	C6 02 - Apr 2016	ICT	Green		The publication scheme document has been reviewed and is up to date.	DRN	14/10/16

## AGENDA ITEM 6a

C6 01 - Building Control - Priority 2	IA 16/17 224 The website should be appropriately updated to reflect the additional charges from 2015/16 for copies of completion certificates	C6 01 - Jul 2016	Planning & Building Control	Green		Now updated	JBN	01/11/16
C6 01 - Building Control - Priority 2	IA 16/17 230 Evidence of disability confirmation so as to allow fee exemption should be recorded	C6 01 - Jul 2016	Planning & Building Control	Green		This change in procedure is now in place.	AA	01/11/16
C6 01 - Building Control - Priority 2	IA 16/17 232 A more standardised approach to Legal referral should be adopted and consistently applied	C6 01 - Jul 2016	Planning & Building Control	Green		Audit comment on original report was 'Alternative procedure considered acceptable as compensatory control' therefore recommendation deemed cleared.	RCS	01/11/16
C6 04 - Bereavement Services - Priority 3	IA 16/17 235 Forward planning of available options for providing burial space once the current supply runs out should be undertaken	C6 04 - Jun 2016	Bereavement Services	Green		Options and recommendations paper produced and incorporated into overarching business plan. Action complete.	HS	13/10/16
C6 07 - Grants - Priority 2	IA 16/17 246 The named groups should be contacted to determine their continuing need for the grant award	C6 07 - Mar 2016	Partnerships & Communications	Green		Both the awards noted in the Audit Report have now been withdrawn.	KS	25/10/16
C6 09 - Payment Card Industry : Data Security Standard (PCI:DSS) - Priority 2	IA 16/17 249 Implementation of a card reader facility at the Crematorium must be investigated	C6 09 - Aug 2016	ICT	Green		Completed.	DRN	14/10/16
C6 09 - Payment Card Industry : Data Security Standard (PCI:DSS) - Priority 2	IA 16/17 255 A signing in book should be introduced to record all visitors and contractors to the Pool, including Council staff, and retained for at least 3 months	C6 09 - Aug 2016	Leisure Services	Green		All visitors/contractors are now required to sign in and this recommendation has been fully implemented.	LH	12/10/16
C6 08 - Internal Audit Report Physical Security of ICT Equipment and Data - Priority 1	IA 16/17 261 Arrangements should be made to ensure that any data of a personal nature held in the TIC should be stored securely	C6 08 - Aug 2016	ICT	Green		Completed.	DRN	14/10/16

## AGENDA ITEM 6a

C6 11 - Creditors - Priority 1	IA 16/17 274 Consider amending the counter signature workflow for payments over £50k to ensure approval and checking is completed by different officers	C6 11 - Aug 2016	Financial Management	Green		This related to an error in the workflow for 2 cost centres, which resulted in the officer authorised for £50k also being the secondary approver. Workflow now amended to ensure approval is undertaken by two different officers.	CH	25/10/16
C6 11 - Creditors - Priority 1	IA 16/17 272 The authorised signatory list and the Agresso approver roles should be reviewed and agreed on a regular basis	C6 11 - Aug 2016	Financial Management	Green		Quarterly review process to be introduced with reviews taking place in October, January, April and July.	CH	12/10/16
C6 05 - Online Payments - Priority 2	IA 16/17 278 A regular reconciliation should be performed by an independent person between all parking permits issued and all payments made/ A system or procedural control should be introduced to not allow the deletion of a generated parking permit number	C6 05 - Jul 2016	Parking Services	Green		Procedure agreed with Internal Audit and now in operation.	HS	20/10/16
C6 05 - Online Payments - Priority 2	IA 16/17 281 There should be a regular reconciliation undertaken by an independent person between the garden waste licenses printed and all payments made	C6 05 - Oct 2016	Waste Management	Green		Measures have now been put in place for the regular reconciliation of the records of the Commercial Waste Officer and the Waste Management Officer.	WA	13/10/16

## Audit & Governance Committee – 15 November 2016

### Audit Services Progress Report as at 30 September 2016



Report of the Audit Services Manager – Shared Internal Audit Service

Ward(s) affected: All

#### 1. Purpose of Report

- 1.1 To update Committee Members on the progress made against the 2016/17 Internal Audit plan up to 30<sup>th</sup> September 2016.

#### 2. Recommendations

Members are recommended to:-

- 2.1 Note the contents of the report and the attached Appendix.

#### 3. Background Information

- 3.1 The work undertaken by Audit Services is governed by the Accounts and Audit (England) Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS). In accordance with paragraph 2.11 of the Standards, the Audit Committee must receive progress reports detailing progress made against the agreed Annual Audit Plan.

#### 4. The Report

- 4.1 This report details the work undertaken by Audit Services and contains a summary of completed reviews along with the overall audit opinion given.

#### 4.2 Breakdown of Current Position as at 30<sup>th</sup> September 2016 including b/fwd audits from 2015/16 Audit Plan

##### 2015/16 audits

2015/16 Audits	Audit Opinion	Current Status
Fraud Code of Practice	n/a	Final report issued
Treasury Management	Partial	Final report issued
Online Payments	Good	Final report issued
Refund Review	Good	Final report issued
Creditors	Good	Final report issued

<u>2016/17 audits</u>		
<b>2016/17 Audits</b>	<b>Audit Opinion</b>	<b>Current Status</b>
Licensing	Partial	Audit completed. File with Manager for review
NFI	Yet to start	Q4 when matched results are published
Money Laundering	In progress	In progress
Payroll inc use of Trent	Yet to start	Q4 audit
Disabled Facilities Grant	Significant	Audit completed. File with Manager for review
Asset Rentals & Lettings Income	Yet to start	Q3/Q4 audit
Garden Waste Collection	In progress	In progress
Planning Fees	Yet to start	Q4 audit
Cybercrime	In progress	In progress
Software Asset Management	Yet to start	Q3 audit
Leisure Site Income	In progress	Q3 audit

4.3 The following table shows the progress against the 2016/17 operational plan for the period 1<sup>st</sup> April 2016 to 30<sup>th</sup> September 2016.

<b>Audit Area</b>	<b>Total Days per approved Audit Plan 2016/17</b>	<b>Days spent as at 30<sup>th</sup> September 2016</b>
Follow up Audit work	6	4
ICT	30	3
Management	20	8
Service Areas	85	35
NFI/Money Laundering	21	0
Fundamentals	35	0
Contingency	30	0
Contingency (CDC Discretion)	10	0
WIP 2015/16 audits:		
CIPFA Fraud Code	5	5
Creditors	3	3
Refunds Review	3	3
Online Payments	2	2
<b>TOTAL</b>	<b>250</b>	<b>63</b>

- 4.4 The current position on the 2016/17 Audit Plan as at 30<sup>th</sup> September 2016 is as follows:

Status of Audits	Number of Audits	Percentage of Plan
Final report issued	0	0%
Draft report issued	0	0%
Managers Review	2	18%
In progress	4	36%
Yet to start	5	46%
<b>Total</b>	<b>11</b>	<b>100%</b>

The audits shown in paragraph 4.3 do not take into account the additional 12 days owed to Craven District Council from the 2015/16 audit plan.

## **5. Priority Areas for the next 4 months to 31<sup>st</sup> January 2017**

- 5.1 The priorities for the Audit team from 1<sup>st</sup> October to 31<sup>st</sup> January 2017 are:-

### **New Audit Software**

The Audit Services Manager has recently secured funding to purchase a brand new audit and risk software package. A procurement exercise has been undertaken and a company called MK Insight, (based in Leeds), has been awarded the contract. Training on their system will commence in January 2017 with a Go Live date of 1<sup>st</sup> April 2017. As a result of this, the Audit team has been instructed to conclude most of their audit work by 31<sup>st</sup> January 2017 to allow time to familiarise themselves with this new way of working.

Craven District Council's needs have been considered as part of the procurement, and payment has been made for unlimited external licences to allow Craven staff to access the new software. This has also heavily influenced the decision to pay for external hosting of the software. None of these costs will be picked up by Craven District Council as this does not form part of our contractual terms.

Discussions will take place with the Strategic Manager – Financial Services (s151 Officer) during quarter 3 to determine how Craven will be able to best utilise the new audit software. This discussion will also resolve how the 12 days owed to Craven will be used.

## **6. Conclusion**

- 6.1 As at 30<sup>th</sup> September 2016, Audit Services are on track to deliver the agreed 2016/17 Audit Plan.

## 7. **Implications**

### 7.1 **Financial and Value for Money Implications**

None

### 7.2 **Legal implications**

None

### 7.3 **Contribution to Council Priorities**

The delivery of an Internal Audit Service contributes to Council transformation.

### 7.4 **Risk Management**

The internal audit function is an integral part of internal control.

### 7.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

## 8. **Consultations with Others**

Strategic Manager Financial Services (S151 Officer

## 9. **Access to Information : Background Documents**

None

**10. Author of the Report**

Kim Betts, Audit Services Manager, Craven District Council and Harrogate Borough Council Shared Audit Service.

**Note:** Members are invited to contact the author in advance of the meeting with any detailed queries or questions.

**11. Appendices**

Internal Audit Plan 2016/17 Q2 Monitoring



## 2016/17 QUARTER 2 MONITORING

Audits (includes audits brought forward 2015/16 and 2016/17 audits)	Approved Plan (Days)	Actual April-September (Days)	Comments (at time of writing)
<b>2015/16 audits b/fwd</b>			
Fraud Code of Practice	5	5	Final report issued
Treasury Management	0	0	Final report issued
Online Payments	2	2	Final report issued
Refund Review	3	3	Final report issued
Creditors	3	3	Final report issued
<b>2016/17 audits</b>			
Licensing	15	21	Audit completed. File with Manager for review
NFI	6	0	Q4 when matched results are published
Money Laundering	15	0	Q3 audit in progress
Payroll inc use of Trent	15	0	Audit to begin Q4 to ensure sufficient number of transactions are available to test.
Disabled Facilities Grant	20	14	Audit completed. File with Manager for review
Asset Rentals & Lettings Income	15	0	Q3/Q4 audit yet to start. Additional days may be required.
Garden Waste Collection	20	0	Audit currently at planning stage.
Planning Fees	15	0	Q4 audit yet to start
Cybercrime	15	3	Q3 audit in progress.
Software Asset Management	15	0	Q3 audit to start November
Leisure Site Income	20	0	Audit currently at planning stage.
Contingency	30	0	Part of this pot may need to be reallocated to Asset Rentals audit
Contingency (CDC discretion)	10	0	Only to be used if instructed to by Strategic Manager – Financial Services S151 officer.
Management	20	8	Ongoing
Follow up work	6	4	Ongoing
<b>TOTAL</b>	<b>250</b>	<b>63</b>	

**\* Key – Levels of Assurance**

<b>Level</b>	<b>Definition</b>
Significant	The system of internal control is designed to support the Councils corporate and service objectives and controls are consistently applied in all the areas reviewed.
Good	There is generally a sound system of control designed to support the Council's corporate and service objectives. However, some improvements to the design or application of controls is required.
Partial	Weaknesses are identified in the design or inconsistent application of controls which put the achievement of some of the Council's corporate and service objectives at risk in the area reviewed.
None	There are weaknesses in control, or inconsistent non-compliance which places corporate and service objectives at risk in the area reviewed.

## **Audit & Governance Committee – 15 November 2016**



### **Appointment of the Sector Led Body Public Sector Audit Appointments (PSAA) to Appoint External Audit Services for Craven District Council From 1 April 2018.**

Report of the Strategic Manager – Financial Services (s151 Officer)

Ward(s) affected: All

#### **1. Purpose of Report**

- 1.1 To update Audit and Governance Committee on the on the appointment of Public Sector Audit Appointments Ltd (PSAA) as the approved sector-led body to procure future External Audit contracts for local government.

#### **2. Recommendations**

Members recommend to Council that

- 2.1 Craven District Council accepts Public Sector Audit Appointments Ltd (PSAA) invitation to 'opt in' to the sector led option of external auditors for five financial years commencing 1 April 2018
- 2.2 Delegate to the Chief Executive and Strategic Manager – Financial Services (s151 officer) to undertake the necessary steps to ensure that the appointment of PSAA is made by 9 March 2017.

#### **3. Background**

- 3.1 In August 2010, the Secretary of State for Communities and Local Government announced plans for new arrangements to audit local public bodies in England. The Government consulted widely and worked with a range of partners to develop and refine its proposals. The Local Audit and Accountability Act 2014 which received Royal Assent in January 2014 lead to the abolition of the existing regime which included the Audit Commission.
- 3.2 The closure of the Audit Commission on 31 March 2015 heralded the start of the process of devolving the responsibility for making external audit appointments to all local public bodies including all classes of local authorities, police (CC and OPCC), fire and rescue bodies (where separate), waste disposal, transport authorities and executives, together with relevant NHS bodies.

- 3.3 Initially transitional arrangements were put in place until 31 March 2017. Public Sector Audit Appointments Limited (PSAA) an independent company established by the LGA was set up to manage the existing appointments.
- 3.4 The Council is currently audited by Mazars LLP who were appointed as the Council's auditors upon the closure of the Audit Commission. This contract has been monitored by PSAA.
- 3.5 The transitional arrangements were due to expire when the 2016/17 audits are complete (i.e. by March 2018). On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, larger local government bodies will remain on current appointments contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017.
- 3.6 An expression of interest was made on behalf of the Council for an 'opt in' to the Sector Led Body proposal from the LGA. Over 200 authorities expressed an interest.
- 3.7 PSAA responded to DCLG's market enquiry for bodies interested in becoming the sector led appointing person and were specified as as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015 by the Secretary of State for Communities and Local Government in July 2016.
- 3.8 The consensus from colleagues within North Yorkshire is that a sector led body should offer the most cost effective route. Previous reports to the meetings of Audit and Governance Committee in April 2016 and June 2016 apprised members of the position and options.
- 3.9 Over recent years the Council has benefited from a reduction in fees of around 51% compared to fees in 2012. The Council's current external audit fees are £46k per annum.
- 3.10 The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on the proposals from the audit firms.
- 3.11 The scope of the audit will still be specified nationally, the National Audit Office is responsible for writing the code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Eligible audit firms need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 3.12 Currently there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence.

#### **4 The Invitation**

- 4.1 PSAA has now formally invited Craven District Council to opt in. Details

relating to PSAA's invitation prospectus are provided at Appendix A to this report.

4.2 In summary the national opt in scheme provides the following:

- The appointment of a suitably qualified audit firm for each of the financial years commencing 1 April 2018;
- Appointing the same auditor to the other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent that this is possible;
- Managing the procurement process to ensure that both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to members;
- Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- Consulting with authorities on the scale of audit fees and ensuring that these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

## **5 The Way Forward**

5.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by 9 March 2017. A copy of this invitation letter is attached at Appendix B.

5.2 PSAA will commence the formal procurement process in early 2107 in accordance with the timetable included within their offer letter.

## **6. Implications**

### **6.1 Financial and Value for Money Implications**

PSAA costs for setting up and managing the scheme will need to be covered by audit fees. PSAA are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of its current deferred income. PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely

as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

There is a risk that the current level of fees could increase when the current contracts end in 2018. Until the procurement exercise is completed it is not possible to state what if any additional resource will be required for audit fees from 2018/19 onwards.

## 6.2 **Legal implications**

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take advice of its auditor panel on selection and appointment of a local auditor.

Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

## 6.3 **Contribution to Council Priorities**

External Audit is part of the Governance framework of the Council which assists with the assurances required that the Council is financially resilient.

## 6.4 **Risk Management**

The Council must have appropriate External Auditors. The Principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

There is a risk that the current level of fees could increase when the current contracts end in 2018. Opting in to a national scheme provides maximum opportunity to ensure that fees are as low as possible.

## 6.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • isolation.

7. **Consultation with Others**

None

8. **Access to Information : Background Documents**

Reports to Audit & Governance Committee

PSAA Website <http://www.psaa.co.uk>

9. **Author of the Report**

Nicola Chick, Strategic Manager – Financial Services (s151 Officer)

Tel: 01756 706418, Email: [NChick@cravenc.gov.uk](mailto:NChick@cravenc.gov.uk)

10. **Appendices**


Appendix A: Offer prospectus from PSAA and list of eligible firms.

Appendix B: Offer Letter from PSAA



# Developing the option of a national scheme for local auditor appointments





“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,  
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

# Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.


The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

# PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.



“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,  
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,  
Police and Crime Commissioners  
Treasurers’ Society (PACCTS)

# The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

# PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

# PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.



“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,  
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,  
Fire Finance Network

# PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

# The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

# How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

**Please reply to: [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)**

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

## **BOARD MEMBERS**

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

## **CHIEF OFFICER**

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of  
Finance and Resources,  
Staffordshire County Council

PSAA Ltd  
3rd Floor, Local Government House  
Smith Square  
London SW1P 3HZ

[www.psaa.co.uk](http://www.psaa.co.uk)

27 October 2016

**Email:** [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk)

Paul Shevlin  
Craven District Council  
1 Belle Vue Square  
Broughton Road  
Skipton North Yorkshire BD23 1FJ

Copied to: Nicola Chick, Strategic Manager – Financial Services (S151 Officer), Craven District Council  
Annette Moppet, Solicitor to the Council/Monitoring Officer, Craven District Council

Dear Mr Shevlin

### **Invitation to opt into the national scheme for auditor appointments**

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

Yours sincerely

Jon Hayes, Chief Officer



## Appointing an external auditor

### Information on the national scheme

#### Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

#### The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

#### What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

### **High quality audits**

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

### **Procurement strategy**

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

## **Auditor appointments and independence**

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

## **Fee scales**

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

## Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

## Timetable

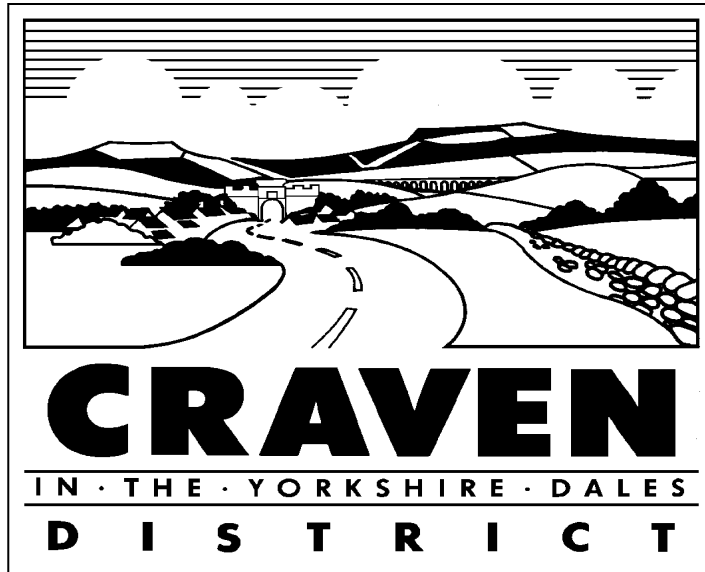
In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

## Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.



**Agenda Item 8i**

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**Internal Audit Report**

***CDC Treasury Management***

**Report ref: C6/12**

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Report Issued

Draft: 5/9/2016

Final: 3/11/2016



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### Distribution:

<b>Name</b>	<b>Job Title</b>
Paul Shevlin (Final only)	Chief Executive
Nicola Chick	Strategic Manager Financial Services (S151 officer)
Mary Kennedy	Finance Officer

# 1 Background

- 1.1 This audit is being undertaken as part of the 2015/16 audit plan. Treasury Management was last audited in 2014/15 where an interim audit was undertaken to review recommendations made in the previous audit. The audit concluded that of four recommendations made:
- One was met
  - Actions had been taken to address two of the recommendations but testing of the outcome needed to be completed in the next audit due to timing of Schedule updates and a lack of borrowing transactions (see below)
  - The fourth recommendation was partially met.
- 1.2 Due to a further year with no borrowing transactions, this audit has been unable to review the actions taken to implement the recommendation made in 2013/14
- 1.3 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.4 As part of this review Internal Audit undertook a walkthrough of the system which has identified the following Key Control Objectives (KCOs):
- There is documentary evidence to support transactions
  - The organisation's financial position is assessed; lending and borrowing records are complete and correct; surplus funds are invested; and deficit balances are cleared promptly
  - Loans are repaid on time
  - Investment and borrowing transactions are legitimate and appropriate

## 2 Audit Scope

2.1 The following testing was undertaken:

KCO	Test	Sample size
<p>There is documentary evidence to support transactions</p>	<p>Perform a walkthrough on one investment made in 2015/16 to date and ensure the following:</p> <ul style="list-style-type: none"> <li>- A Details of Temporary Investment form (DTI) was completed</li> <li>- That the date of investment, the amount, the interest rate and the maturity date agree to confirmations received from the broker and the counterparty</li> <li>- That the transaction was completed on bankline by an authorised person and authorised by another authorised person.</li> <li>- That the CHAPS instruction form was authorised by a senior member of Financial Services</li> <li>- That the counterparty was an approved organisation</li> <li>- That the invested amount was within the limit set for the rating of the institution</li> <li>- That the invested amount was within the limit set for the Country and rating of the institution</li> <li>- That the broker is on the Council's approved list of brokers</li> <li>- The institution meets the Council's credit rating standards</li> </ul>	<p>One investment made in 2015/16 to date</p>



<p>The organisation's financial position is assessed; lending and borrowing records are complete and correct; surplus funds are invested; and deficit balances are cleared promptly</p>	<p>Perform a walkthrough on one investment made in 2015/16 to date and ensure the following:</p> <ul style="list-style-type: none"> <li>- The sum invested was repaid on the maturity date.</li> <li>- Interest received is reconciled to amounts expected based on the terms of investment. If any discrepancies arise they are investigated.</li> <li>- Establish whether regular reconciliations between the investment record and Agresso are performed and reflect the investment at commencement and maturity.</li> <li>- The Monthly reconciliation is reviewed and signed by the Strategic Manager Financial Services.</li> </ul>	<p>One investment made in 2015/16 to date</p>
<p>Loans are repaid on time</p>	<p>Perform a walkthrough on one borrowing transaction made in 2015/16 to date and ensure the following:</p> <ul style="list-style-type: none"> <li>- Ensure authorisation was obtained for any long-term loans taken out in 2015/16 to date.</li> <li>- Enquire as to whether a loan register is in place. Establish who updates the register with details of new loans and whether the register is reviewed by a senior member of Financial Services to ensure accuracy and completeness.</li> <li>- Enquire with management whether any temporary loans have been taken out in the last 12 months. Ensure that each temporary loan was authorised by the Corporate Head of Financial Management.</li> <li>- Inspect call account logs and the portfolio of fixed term investments to establish whether funds - other than loan finance - were available at the time that the temporary loans were taken out. If other funds were available, discuss with management why loan finance was used rather than utilising call account funds or maturing fixed term investments.</li> <li>- For any temporary loans taken out in the last twelve months ensure that repayments were accurate (principal plus appropriate interest), made on a timely basis and appropriately authorised.</li> </ul>	<p>One borrowing transaction made in 2015/16 to date</p>

Investment and borrowing transactions are legitimate and appropriate	An up-to-date listing of staff authorised to make deals on behalf of the Council should be created and sent to all brokers and approved counterparties. The listing should be sent by the Corporate Head (Financial Management). Procedures should be put in place to ensure that the listing is updated when relevant staff join or leave the organisation.	Not applicable
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## Audit Opinion

3.1 A summary of Internal Audit's opinion levels and their definitions is provided below:

Level	Definition
<b>Significant Level of Assurance</b>	The system of internal control is designed to support the Council's corporate and service objectives and controls are consistently applied in all the areas reviewed.
<b>Good Level of Assurance</b>	There is generally a sound system of control designed to support the Council's corporate and service objectives. However, some improvements to the design or application of controls is required.
<b>Partial Level of Assurance</b>	Weaknesses are identified in the design or inconsistent application of controls which put the achievement of some of the Council's corporate and service objectives at risk in the areas reviewed.
<b>No Level of Assurance</b>	There are weaknesses in control, or consistent non-compliance which places corporate and service objectives at risk in the areas reviewed.

3.2 This audit has been given a **partial level of assurance**. Testing has identified one priority 1 control weakness and one priority 2 control weakness. Detailed findings and associated recommendations are outlined in the main body of this report.

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## **4 Detailed Findings & Action Plan**

The audit findings are detailed in this section on an exception basis only for the attention of management; therefore KCO's with adequate controls based on the samples examined are not included.

Recommendations are prioritised as follows; Priority 1 – These recommendations relate to significant gaps in the Internal Control Framework, Priority 2 – These recommendations relate to minor gaps in the Internal Control Framework or significant issues of non-compliance with key controls, Priority 3 - These issues relate to minor issues of non-compliance with controls.

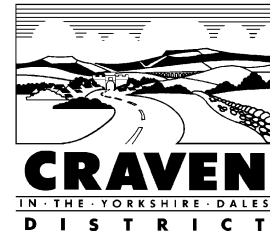
Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>KC01: There is documentary evidence to support transactions</b>				
1	<p>The investment sampled was made with an unrated building society; the Treasury Management Practices (TMP) and the Treasury Management Strategy Statement (TMSS) were found to have conflicting policies on the use of these institutions and the tested transaction was found to be in contradiction of both the documents.</p> <ul style="list-style-type: none"> <li>· The TMP states that unrated building societies should have a minimum asset value of £1bn and the investment limit is £0.5m.</li> <li>· The TMSS states that building societies that are unrated should have a minimum asset value of £2.5bn</li> </ul> <p>The value of the tested investment was £1m and the institution had an asset value of £333m as at Aug 2011 as per the CDC counterparty listing or £371m as at January 2016 as per the Building Societies Association.</p> <p>The institution that the investment was placed with was listed on the CDC approved counterparty list however as it failed to meet the criteria in the TMP and the TMSS it should not have done. The institution does not appear on the treasury consultants (Capita) counterparty listing but it is Council policy that institutions may still be used that do not appear on Capita's counterparty listing though alternative reviews must be carried out using balance sheet information e.g. asset values and capital ratios.</p>	Loss of Council funds invested in risky institutions.	<p>Priority 1</p> <p>Ensure that the TMP and the TMSS provide standards and guidance for the investment of Council funds and that both agree with one another.</p> <p>Ensure that all investments undertaken are in accordance with the financial institution criteria set out in the TMSS and the TMP</p> <p><b>Management Response</b> Changes to the TMSS taken to Policy Committee April 2016 to correct asset value to £1bn.</p> <p>TMP now set at £1bn in accordance with TMSS &amp; all schedules aligned,</p>	Strategic Manager Financial Services (S151 officer) April 2016

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>KCO4: Investment and borrowing transactions are legitimate and appropriate</b>				
2	The Craven District Council Counterparty list contains out of date information; the asset values stated for approved investment institutions were dated between December 2010 and January 2012. The Finance Officer has informed Audit that when an investment is being considered based on the asset value only, a check on the building society is undertaken at that point however Internal Audit has not seen any supporting documents from checks carried out before entering an investment with the tested transaction.	Investment decisions could be made on out of date information resulting in investments being made with a higher risk than the Council is prepared to accept.	<p>Priority 2</p> <p>The asset values listed on the CDC counterparty listing are updated at least annually.</p> <p>Any spot checks carried out on unrated institutions prior to taking an investment deal should be recorded and the results of the review retained.</p> <p><b>Management Response</b> Counterparty list updated</p>	Finance Officer April 2016

Any queries or requests for further information regarding this report should be directed to Internal Audit on 01423 500600 ext. 58584  
Internal Audit would like to thank the officers involved for their assistance during this audit.

# Audit & Governance Committee

15<sup>th</sup> November 2016



## Exemption under the Council’s Contract Procedure Rules

Report of the Strategic Manager, Financial Services (s151 Officer)

Ward(s) affected: All

1. **Purpose of Report** - To request an exemption under CPR 6 - clause 6.4 of the Council's Contract Procedure Rules for the temporary extension of the contract for the provision of temporary Waste Management staff.
2. **Recommendations** - Members are recommended to:
  - 2.1. Approve an exemption under the Council’s Contract Procedure rule for the extension of the existing contract for a further 12 months.
3. **Background**
  - 3.1. The Council's existing contract for the provision of temporary Waste Management Agency staff was let following a tender exercise utilising ESPO Framework Agreement 653F/11 for Managed Services for Temporary Agency Resources (MSTAR) for a 2 year period to 10 March 2016 with an optional 1 year extension period. Due to expected contract values an EU tendering process was followed.
  - 3.2. The extension clause has been exercised by the Council with the current contract expiring 10 March 2017.
  - 3.3. The contract is variable dependant on the needs of the Council for temporary staff. Spend on the contract to date is noted below:

Year 1 – 2014/15	Year 2 - 2015/16	Year 3 spend to 9 10 2016
£96,320	£124,210	£113,623

- 3.4. In accordance with Contract Procedure Rules, the Council should now look to undertake a further procurement process for future service provision beyond 10 March 2017 or seek an exemption.
4. **Proposal for exemption**
  - 4.1. Waste Management are currently going through a process to change the collection methodology from the 1<sup>st</sup> April 2017. Implementation of the new methodology would therefore coincide with the new contract for temporary labour.
  - 4.2. Undertaking a tender process at this stage therefore poses a significant risk to the Council, as the evaluation process may result in a contract award to an alternative supplier other than the incumbent.

- 4.3. Changes to temporary labour arrangements at the same time as the new methodology being mobilised gives rise to the following key risks should a new supplier be appointed :
- That TUPE arrangements are not put in place to ensure a smooth changeover;
  - That any new supplier would not fully understand the business and what are requirements are;
  - Non trained or inducted personnel slipping through the net;
  - Unable to recruit candidates within such a short time frame; and
  - New account managers trying to understand our needs.
- 4.4. An extension to the existing contract with the current supplier for a further 12 months to 10 March 2018 is proposed. This would ensure a smooth transition to new collection arrangements and allow for the revised collection methodology to be fully embedded without additional complications associated with the key risks above.
- 4.5. The current supplier has made contact with the Council to express their interest in extending the current contract beyond the March 2017 expiry.
5. **Financial Implications** - Financial implications associated with the provision of temporary staff have been considered as part of the budget setting process.
6. **Legal Implications** - Request for exemption is in accordance with the Council's Contract Procedure Rules. In accordance with Procedure Rule 6.5 no exemption may be granted which result in a breach of European or UK law. Current EU tender thresholds for supply and service contracts are £164,177, and it is considered the value of a 12 month extension would fall within the limit.
7. **Contribution to Council Priorities** - Waste Management Services make an important contribution to the Council Priorities. 'Reducing waste to landfill and increasing re-use and recycling' is identified as a key action under its priority for Resilient Communities identified in the Council Plan 2017/20.
8. **Risk Management** - Risks to the Council associated with revised contract arrangements are identified in paragraph 4.3 of the report.
9. **Equality Impact Assessment** - The Council's Equality policies are considered in contract arrangements.
10. **Consultations with Others**  
Environmental Health & Housing Services Manager  
Waste Operations Manager
11. **Access to Information : Background Documents** - None
12. **Author of the Report** – Claire Hudson, VFM and Improvement Manager  
[chudson@cravenc.gov.uk](mailto:chudson@cravenc.gov.uk)