

# AUDIT COMMITTEE

## AGENDA

**Tuesday 11<sup>th</sup> April 2017 at 1400 hours in the Chamber Chamber, The Arc, Clowne**

<b>Item No.</b>		<b>Page No.(s)</b>
	<b>PART 1 – OPEN ITEMS</b>	
1.	To receive apologies for absence, if any.	
2.	To note any urgent items of business which the Chairman has consented to being considered under the provisions of Section 100(B) 4 (b) of the Local Government Act 1972.	
3.	Members should declare the existence and nature of any Disclosable Pecuniary Interest and Non Statutory Interest as defined by the Members' Code of Conduct in respect of:  a) any business on the agenda b) any urgent additional items to be considered c) any matters arising out of those items  and if appropriate, withdraw from the meeting at the relevant time.	
4.	To approve the minutes of a meeting held on 16 <sup>th</sup> January 2017.	4 to 9
5.	<b>Reports of the External Auditor (KPMG);</b>	
	(A) External Audit Plan 2016/2017.	10 to 29
	(B) Progress Report and Technical Update.	30 to 44
6.	<b>Reports of the Internal Audit Consortium;</b>	
	(A) Internal Audit Plan 2017/2018.	45 to 55
	(B) Summary of Progress on the 2016/17 Internal Audit Plan.	56 to 60
7.	<b>Reports of the Executive Director – Operations;</b>	
	(A) Accounting Policies 2016/17.	61 to 84
	(B) Derbyshire Audit Forum.	85 to 141
	(C) Response to KPMG's Inquiries to Those Charged with Governance.	142 to 148
	(D) Key Issues of Financial Governance.	149 to 154

8           **PART 2 – EXEMPT ITEMS**

***The Local Government (Access to Information) Act 1985, Local Government Act 1972, Part 1, Schedule 12a (relevant exemption paragraph is cited next to the agenda item).***

Paragraph 3

- 9           (A) Update on addressing issues identified in ‘Marginal audit reports’.

Verbal  
Update

## **AUDIT COMMITTEE**

Minutes of a meeting of the Audit Committee of the Bolsover District Council held in the Council Chamber, the Arc, Clowne on Monday 16<sup>th</sup> January 2017 at 1400 hours.

### **PRESENT:-**

Members:- Councillors J.A. Clifton, S.W. Fritchley, D. McGregor, T. Munro and A.M. Syrett.

Officers:- B. Mason (Executive Director – Operations), D. Clarke (Assistant Director – Finance, Revenues and Benefits), J. Williams (Internal Audit Manager) and A. Bluff (Governance Officer).

Also in attendance at the meeting was K. Meats (Audit Manager, KPMG), Cecilie Booth, Client Director, Arlingclose Ltd and Councillor K. Reid (Portfolio Holder).

Mrs R. Jaffray (Cooptee Member) in the Chair

### **0591 A. APOLOGIES**

Apologies for absence were received on behalf of Councillor M.J. Dooley and T. Crawley (Audit Team Lead – KPMG).

### **0591 B. URGENT ITEMS OF BUSINESS**

There were no urgent items of business to consider.

### **0591 C. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

### **0591 D. CHANGE TO ORDER OF BUSINESS**

The Chair consented to a change in order of business to that stated on the agenda. To alleviate waiting time for Cecilie Booth, Client Director, Arlingclose Ltd; Cecilie's presentation on Treasury Management for Members, (*which was part of Agenda Item 10; Report of the Executive Director – Operations; Medium Term Financial Plan 2017/18 to 2020/21*), would be considered after agenda item 6; Report of the External Auditor (KPMG) – BDC Technical Update – January 2017.

## AUDIT COMMITTEE

### 0591 E. MINUTES – 21<sup>ST</sup> NOVEMBER 2016

Moved by Councillor T. Munro and seconded by Councillor S.W. Fritchley  
**RESOLVED** that the Minutes of an Audit Committee meeting held on 21<sup>st</sup> November 2016 be approved as a correct record.

### 0591 F. REPORTS OF THE EXTERNAL AUDITOR (KPMG); BOLSOVER DISTRICT COUNCIL GRANTS ANNUAL REPORT 2015/16

Committee considered a report of KPMG which summarised the results of work carried out on the Council's 2015/16 grant claims and returns.

Members were asked to note that KPMG's fee for work on the Council's Housing Benefit Subsidy claim for 2015/16 exceeded the original estimate due to the necessity of undertaking additional work. In the light of this, a recommendation from KPMG was that targeted training should be provided to all benefit assessors to ensure that;

- the correct figures were being identified for State Related Pension,
- assessors knew how to calculate earned income correctly,
- assessors knew when an overpayment should be classified as claimant error and when it should be classified as local authority error.

A short discussion took place.

The Executive Director – Operations informed the meeting that a training programme would be put in place and timescales regarding this were being looked at.

Moved by Councillor A.M. Syrett and seconded by Councillor T. Munro  
**RESOLVED** that the report of the external auditors, KPMG, be noted.

(Executive Director – Operations)

### 0591 G. REPORTS OF THE EXTERNAL AUDITOR (KPMG); BOLSOVER DISTRICT COUNCIL TECHNICAL UPDATE – JANUARY 2017

Committee considered an external audit progress report and technical update which had been prepared by KPMG.

An appendix to the report set out the 2016/17 audit deliverables from KPMG.

Members' attention was drawn to a new report published by CIPFA titled 'Understanding Local Authority Financial Statements'. A website link to the report was provided for Members' information.

Further to this, CIPFA/LASAAC had undertaken a consultation on proposals for the 2017/18 Code of Practice on Local Authority Accounting in the UK. The headline changes were set out in the report and a website link to the details of the consultation was also provided for Members' information.

## **AUDIT COMMITTEE**

KPMG would be running a series of local government accounts workshops in February and the Executive Director – Operations confirmed that the Council's Chief Accountant would be attending one of the workshops.

Moved by Councillor S. Fritchley and seconded by Councillor A.M. Syrett.

**RESOLVED** that the report be noted.

**0591 H.        REPORTS OF THE EXECUTIVE DIRECTOR – OPERATIONS;  
                  MEDIUM TERM FINANCIAL PLAN 2017/18 TO 2020/21 –  
                  (INCLUDING PRESENTATION BY CECILIE BOOTH, CLIENT  
DIRECTOR,        ARLINGCLOSE LTD)**

Committee considered a presentation given by Cecilie Booth, Client Director from Arlingclose Ltd, who where the Council's Treasury Management advisors.

The presentation focused on;

- Treasury Management Framework – Legislation and Guidance and the role of Elected Members,
- Risk and Reward – Security, Liquidity and Yield,
- External Context – Financial Market Conditions, Interest Rate Forecast and Bank Regulation,
- Local Context – Investment and Debt; Current and Forecast, Comparison with other local authorities
- Options for the Future.

A Member's question and answer session followed the slide presentation.

Members thanked Cecilie for an informative presentation.

**0591 I.        REPORTS OF THE INTERNAL AUDIT CONSORTIUM;  
                  SUMMARY OF PROGRESS ON THE 2016/17 AUDIT PLAN**

Committee considered a report in relation to progress made by the Internal Audit Consortium on the 2016/17 Internal Audit Plan during the period 10th September 2016 to 3rd January 2017.

The report included a summary of Internal Audit Reports issued during the period and work in progress.

Two of the reports had been issued as marginal and these related to Section 106 agreements and Use of Social Media. The Executive Director – Operations noted that further detailed (exempt) information regarding these two reports had been provided to Members separately.

In respect of the audits being reported, it was confirmed that there were no issues arising relating to fraud that needed to be brought to the Committee's attention.

## AUDIT COMMITTEE

The following audits were currently in progress;

- Housing Rents
- Housing Repairs
- Homelessness
- Payroll

Members raised concern regarding the two marginal reports and requested that the two relevant Directors responsible for implementing the recommendations arising from the audits be requested to attend the next meeting of Audit Committee to provide an update to Members.

Moved by Councillor S. Fritchley and seconded by Councillor D. McGregor

**RESOLVED** that 1) the report be noted,

2) the two relevant Directors responsible for implementing the recommendations arising from the audits of Section 106 agreements and Use of Social Media attend the next meeting of Audit Committee to provide an update to Members.

(Executive Director – Operations)

### **0591 J.       REPORTS OF THE INTERNAL AUDIT CONSORTIUM; EXTERNAL REVIEW OF INTERNAL AUDIT**

Committee considered a report which provided the results of an external audit review of internal audit under taken in October 2016.

The Public Sector Internal Audit Standards (PSIAS) were introduced on 1<sup>st</sup> April 2013 and Internal Audit had been working to these standards since that date.

The PSIAS required that an external assessment of internal audit should be carried out at least once every 5 years by a qualified, independent assessor or team.

The first external assessment needed to be complete by April 2018 and a tender exercise had been carried out with the work awarded to Gateway Assure.

The external assessment involved a review of the Consortium's documentation; working practices, committee reports and discussions with the Internal Audit Consortium Manager and client officers at each Council.

The report concluded that the Internal Audit Consortium complied with the requirements of the PSIAS and this meant that Members could have confidence in the service provided by the audit team.

The outcome of the review had also been benchmarked against other provision in both the sector and the wider industry and showed that the team compared favourably in comparison with its peers.

The report made some recommendations that were aimed at highlighting where further development could be made to enhance the value of the service being provided. The

## AUDIT COMMITTEE

assessor's full report and an action plan were attached as an appendix to the report for Members' information.

The Internal Audit Manager advised the meeting that if Members approved the action plan it would be implemented and an update report presented to Committee at its meeting in June.

Moved by Councillor D. McGregor and seconded by Councillor S. Fritchley

**RESOLVED** that 1) the results of the external review of internal audit be noted,

2) the action plan be approved and an update report be presented to Audit Committee in June 2017.

(Internal Audit Manager)

### **0591 K. REPORTS OF THE INTERNAL AUDIT CONSORTIUM; PROPOSED NEW SYSTEM OF INTERNAL AUDIT REPORT CLASSIFICATIONS**

Committee considered a report which sought approval of a revised system of classification for the internal audit opinions issued as the conclusion for each report.

The present internal audit report classifications had been utilised since the commencement of the Consortium and whilst they were "tried and tested", current best practice was to focus more on the level of assurance that could be given with regard to the area being audited - this also linked more closely with the Annual Governance Statement. The external reviewer had also recommended considering moving towards providing levels of assurance linked to risk.

Following a review of other councils' systems of classification and discussions with the Consortium's client officers, it was proposed that a new system based on four levels of assurance classification be adopted from the 2017/18 financial year as follows;

<b>Assurance Level</b>	<b>Definition</b>
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

Moved by Councillor A.M. Syrett and seconded by Councillor T. Munro

**RESOLVED** that 1) the report be received,

## AUDIT COMMITTEE

2) the revised internal audit report opinion classifications be introduced from the commencement of the 2017/18 internal audit plan year.

(Internal Audit Manager)

### **0591 L.       REPORTS OF THE EXECUTIVE DIRECTOR OPERATIONS; KEY ISSUES OF FINANCIAL GOVERNANCE**

Committee considered a report which provided an update on progress concerning the implementation of previous recommendations from both external and internal audit.

The report reflected KPMG's Annual Audit Letter 2015/16 and the more detailed ISA 260 report, both of which had been presented to a previous Audit Committee. The report also reflected the latest update from Internal Audit concerning progress on the Internal Audit Plan as discussed earlier on the agenda together with planned management action to address the issues identified.

In the view of the Chief Financial Officer, the Key Issues of Financial Governance which constituted the main strategic financial issues currently facing the Council, were as follows;

- Take effective steps to balance the Council's budget over the period of the Medium Term Financial Plan. An update on this matter would effectively be provided in the MTFP which would be reported to Executive and Council in February 2017.
- To improve the Council's Internal Control arrangements. The Executive Director - Operations advised the meeting of the Derbyshire Audit Forum, facilitated by KPMG, which should help inform an assessment of the Council's performance in this area. Feedback from the Forum, for which Members of the Audit Committee had received an invitation, would be provided to the Audit Committee meeting in April.
- To maintain a high standard of external financial reporting, particularly in respect of the published accounts, against a background of a reduction in the statutory timescale for the closure of accounts. Draft account policies would be presented for consideration at the Audit Committee meeting in April.

Moved by Councillor D. McGregor and seconded by Councillor S. Fritchley

**RESOLVED** that the Strategic Issues of Financial Governance as set out in the report reflect the key issues facing the Council.

(Executive Director – Operations)

The meeting concluded at 1555 hours.



**Bolsover District Council**

**Audit Committee**

**11 April 2017**

**KPMG External Audit Plan 2016/2017**

**Report of the Council's External Auditor KPMG**

This report is Public

**Purpose of the Report**

- For the Audit Committee to consider the Audit Plan 2016/2017 attached as **Appendix 1** which has been prepared by KPMG for consideration by elected Members of the Council.

**1 Report Details**

- 1.1 That the Audit Committee consider the attached report from the Council's External Auditors (KPMG).

**2 Conclusions and Reasons for Recommendation**

- 2.1 To ensure that the Audit Committee is able to effectively consider the outcomes of the work undertaken by the Council's external auditors.

**3 Consultation and Equality Impact**

- 3.1 None arising directly from the report.

**4 Alternative Options and Reasons for Rejection**

- 4.1 Not applicable.

**5 Implications**

**5.1 Finance and Risk Implications**

There are no additional financial implications arising out of this report.

**5.2 Legal Implications including Data Protection**

None arising directly from this report.

**5.3 Human Resources Implications**

None arising directly from this report.

## 6 Recommendations

- 6.1 That the Audit Committee considers and notes the attached report from the Council's External Auditors, KPMG, in respect of the external Audit Plan 2016/2017.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> (A Key Decision is an executive decision which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	N/A
<b>Links to Corporate Plan priorities or Policy Framework</b>	N/A

## 8 Document Information

Appendix No	Title
1	<a href="#">Audit Plan 2016/2017</a>
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	Contact Number
Executive Director Operations, Bryan Mason	2431



# External Audit Plan 2016/2017

**Bolsover District Council**

**March 2017**

## Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with.

### Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£900,000**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£45,000**.

### Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Significant changes in the pension liability due to LGPS Triennial Valuation.

### Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Business rate appeals;
- Accounting for leisure centre asset and income; and
- Disclosure associated with retrospective restatement of CIES, EFA and MiRS.

**See pages 3 to 5 for more details.**

## Value for Money Arrangements work



Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial resilience – delivery of future savings and other measures to secure long term financial and operational sustainability remains challenging and therefore poses a risk to financial resilience.

**See pages 7 to 11 for more details.**

## Logistics



Our team is:

- Tony Crawley – Director
- Kay Meats – Manager
- Katie Scott – Assistant Manager

More details are on **page 15**.

Our work will be completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 14**.

Our fee for the audit is £49,410 (£49,410 2015/2016) see **page 13**.

# Introduction

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement)*: Providing an opinion on your accounts; and
- *Use of resources*: Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

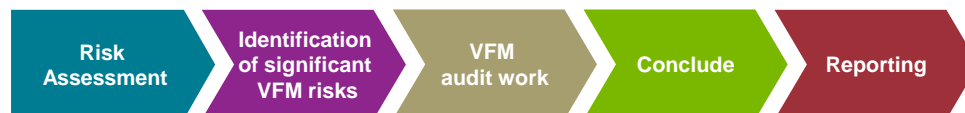
## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our VFM risk assessment.





## Financial Statements Audit Planning

Our planning work takes place during December 2016 to February 2017. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

### Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.

In addition, are aware that the Authority is in the process of establishing a Joint Venture Company in line with its Growth Strategy. We do not foresee this having a significant impact on the financial statements for 2016/17 and therefore we will maintain a dialogue with the Executive Director – Operations to monitor progress.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

### **Risk :** Significant changes in the pension liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme (the Pension Fund) for the Authority has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Derbyshire County Council, who administer the Pension Fund.

**Approach :** As part of our audit, we will agree the relevant data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with the Pension Fund Audit Team where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of that data.



## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### Risk : Business rates provision

The provision for business rate appeals is an area of audit focus since local authorities have little control over the level of appeals and their outcome. It is difficult to anticipate the financial impact of successful appeals as the potential change in rateable value cannot be predicted. Also, there is usually no indication of timescales to settle an appeal, making it a matter of judgement as to when the financial impact will fall.

**Approach :** We will review the Authority's approach to estimating its provision for business rate appeals against the requirements of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*.

### Risk : Leisure centre

The Go! Active @The Arc leisure facility is scheduled to open in January 2017. The Authority will therefore need to account for the completed asset in the balance sheet as at 31 March 2017. This is an area of focus as the amounts involved are significant and there is a potential to misstate the asset's valuation by a material amount.

In addition to the introduction of the asset, the Authority will also be implementing a new system to record the income. The new income system will require appropriate controls to be put in place.

**Approach :** We will review the accounting treatment adopted in respect of the asset addition of the leisure centre in accordance with the requirements of IAS 16 – *Property, Plant and Equipment*.

We will document our understanding of the controls in place in respect of the new leisure centre income system and we test those controls as necessary to gain the required level of audit assurance.





## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### **Risk** : Disclosure associated with retrospective restatement of CIES, EFA and MiRS

CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how councils are funded and how they use the funding to serve the local population. The outcome of this project has resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (the Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note.

As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts. The new disclosure requirements and the restatement of the accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards. Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding.

**Approach** : We will liaise with the Authority's Finance team regarding the new requirements and agree the new disclosures, including the restatement of the prior year comparators.

# Financial statements audit planning (cont.)



## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £900,000 which equates to 1.6 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

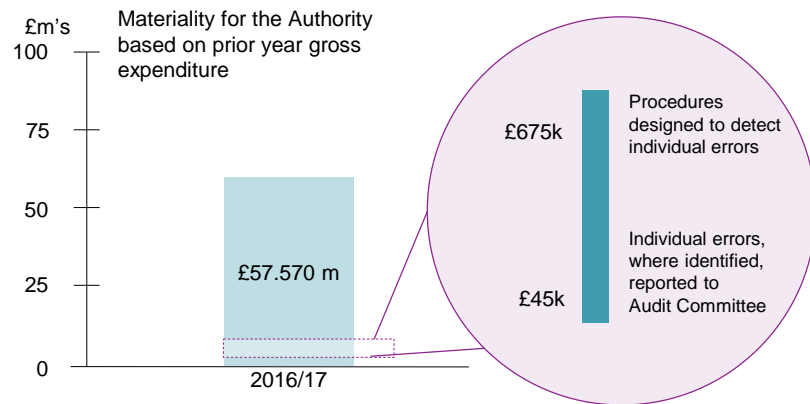
## Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.





### Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.





## Overall criterion

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

### Informed decision making

#### Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

### Sustainable resource deployment

#### Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

### Working with partners and third parties

#### Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.



VFM audit stage	Audit approach
<b>VFM audit risk assessment</b>	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ Information from the Public Sector Auditor Appointments Limited VFM profile tool;</li> <li>■ Evidence gained from previous audit work, including the response to that work; and</li> <li>■ The work of other inspectorates and review agencies.</li> </ul>
<b>Linkages with financial statements and other audit work</b>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<b>Identification of significant risks</b>	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ Considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>

# Value for money arrangements work (cont.)



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> <li>■ Meeting with senior managers across the Authority;</li> <li>■ Review of minutes and internal reports; and</li> <li>■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.</li> </ul>
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>



## Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

### Financial Resilience

#### Risk : Financial Resilience

The Authority set an original budget for 2016/17 which included a requirement to achieve £0.067m of savings. As at February 2017, the Authority was forecasting that it will deliver its 2016/17 budget and achieve a surplus of £0.423m. The Medium Term Financial Plan (which for clarity does not factor in the projected 2016/17 surplus) shows that a further £0.170m and £1.138m of savings will be required for 2017/18 and 2018/19 respectively to address further reductions in local authority funding. This represents a challenging target given the level of savings already achieved in previous years, and the increasing localisation of financial risk means that there is less certainty about income levels.

**Approach :** Our value for money work will assess the arrangements the Authority has in place to maintain its record of meeting efficiency savings to address national funding changes. We will rely on our accounts audit work where relevant, underpinned by a review of the Authority's budget setting process, financial management processes, and discussions with the Senior Management Team. As a part of our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans.

## Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

## Electors challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

## Our audit team

Our audit team will be led by Tony Crawley who will provide continuity to the audit. Appendix 2 provides more details on specific roles and contact details of the team.

## Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

## Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

## Audit fee

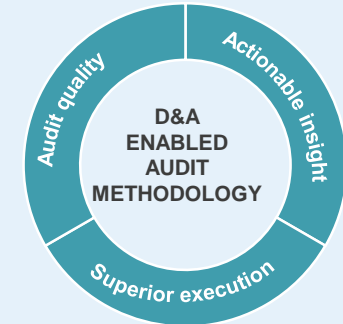
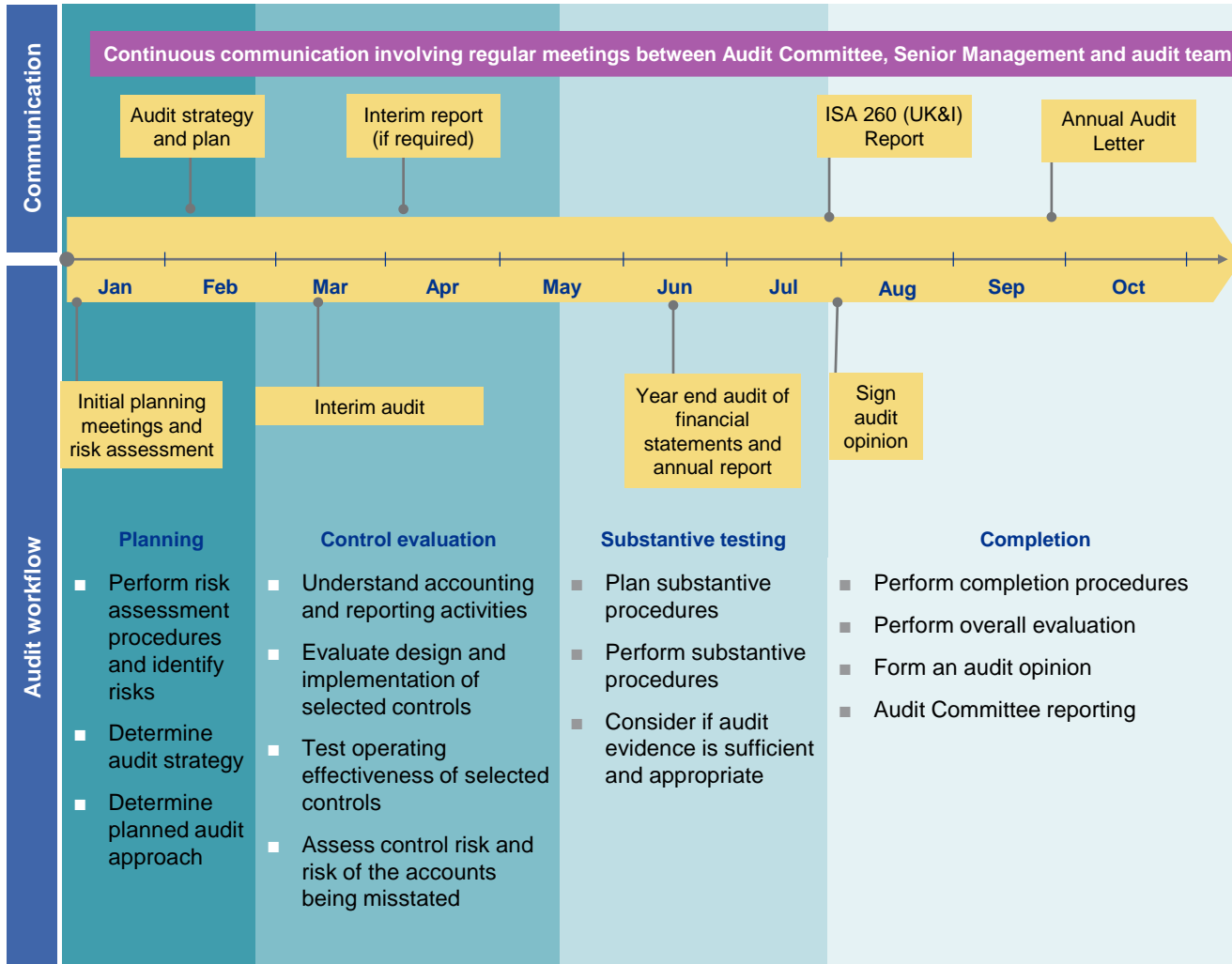
*Our Audit Fee Letter 2016/2017* presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £49,410. Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Our audit fee may be varied later, subject to agreement with PSAA, for changes in the Code, specifically this year the changes in relation to the disclosures associated with retrospective restatement of the CIES, EFA and MIRS.



# Appendix 1: Key elements of our financial statements audit approach



## Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We will consider using data and analytics in our work around key areas such as accounts payable and journals. We will aim to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

# Appendix 2: Audit team



Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Bolsover District Council audit last year.



Name	Tony Crawley
Position	Director
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.  I will be the main point of contact for the Audit Committee and Chief Executive.'

**Tony Crawley**  
Director

tony.crawley@kpmg.co.uk  
0116 256 6067



Name	Kay Meats
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.  I will work closely with Tony to ensure we add value.  I will liaise with the Chief Finance Officer and other Executive Directors.'

**Kay Meats**  
Manager

kay.meats@kpmg.co.uk  
0782 482 1375



Name	Katie Scott
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

**Katie Scott**  
Assistant Manager

katie.scott@kpmg.co.uk  
0746 836 5923



# Appendix 3: Independence and objectivity requirements

## Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

## Confirmation statement

We confirm that as of March 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointments’s website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

**Bolsover District Council**

**Audit Committee**

11 April 2017

**KPMG External Audit: Progress Report and Technical Update**

**Report of the Council's External Auditor KPMG**

This report is Public

**Purpose of the Report**

- For the Audit Committee to consider the Progress Report and Technical Update attached as **Appendix 1** which has been prepared by KPMG for consideration by elected Members of the Council.

**1 Report Details**

- 1.1 That the Audit Committee consider the attached report from the Council's External Auditors (KPMG).

**2 Conclusions and Reasons for Recommendation**

- 2.1 To ensure that the Audit Committee is able to effectively consider the outcomes of the work undertaken by the Council's external auditors.

**3 Consultation and Equality Impact**

- 3.1 None arising directly from the report.

**4 Alternative Options and Reasons for Rejection**

- 4.1 Not applicable.

**5 Implications**

**5.1 Finance and Risk Implications**

There are no additional financial implications arising out of this report.

**5.2 Legal Implications including Data Protection**

None arising directly from this report.

**5.3 Human Resources Implications**

None arising directly from this report.

## 6 Recommendations

- 6.1 That the Audit Committee considers and notes the attached report from the Council's External Auditors, KPMG.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> (A Key Decision is an executive decision which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	N/A
<b>Links to Corporate Plan priorities or Policy Framework</b>	N/A

## 8 Document Information

<b>Appendix No</b>	<b>Title</b>
1	Progress Report and Technical Update
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
<b>Report Author</b>	<b>Contact Number</b>
Executive Director Operations, Bryan Mason	2431



# External Audit: Progress Report and Technical Update

**Bolsover District Council**

Audit Committee – April 2017

# Contents

The contacts at KPMG in connection with this report are:

**Tony Crawley**

*Director*

**Tel: 0116 256 6067**

[tony.crawley@kpmg.co.uk](mailto:tony.crawley@kpmg.co.uk)

**Kay Meats**

*Manager*

**Tel: 0115 945 4485**

[kay.meats@kpmg.co.uk](mailto:kay.meats@kpmg.co.uk)

**Katie Scott**

*Assistant Manager*

**Tel: 0121 232 3632**

[katie.scott@kpmg.co.uk](mailto:katie.scott@kpmg.co.uk)

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## Report sections

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2. Audit deliverables 12

This report provides the Audit Committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights some of the recent communications and other publications on the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.





# External audit progress report

# External audit progress report – April 2017

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.

Commentary	
<b>2016/17 audit</b>	<p>Since the last Audit Committee meeting in January 2017 we have:</p> <ul style="list-style-type: none"> <li>▪ Met with officers to update our risk assessment of the Authority and support the development of our External Audit Plan;</li> <li>▪ Completed our planning work for the 2016/17 audit, the outcome of which was reported to the Chief Financial Officer in our External Audit Plan in March 2017 and is due to be received by the Audit Committee in April 2017.</li> <li>▪ Carried out our interim audit visit during February/March 2017. There are no matters arising which were necessary to be separately reported to you at this stage; and</li> <li>▪ Started our Value for Money (VFM) conclusion work. Our approach follows guidance specified by the National Audit Office in terms of the scope and focus of the work. We have performed an initial assessment of the use of resources risks identified through our risk assessment and the action that management is taking to achieve value for money. There is nothing that we need to report to you at this stage. We are aware of the uncertainties that remain in relation to the future of local government funding, and we will continue our assessment of your arrangements for planning for the future.</li> </ul> <p>Our work over the next quarter will include:</p> <ul style="list-style-type: none"> <li>▪ Commencing our audit of your financial statements. Our year end audit visit has been confirmed and is due to commence on 5 June 2017; and</li> <li>▪ Completing our assessment of your arrangements to provide VFM.</li> </ul>
<b>Technical Update</b>	At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.
<b>Actions</b>	<p>We ask the Audit Committee to:</p> <ul style="list-style-type: none"> <li>▪ <b>NOTE</b> this progress report.</li> </ul>



# Appendices

# Appendix 1 - Technical update - National Audit Office publications

Area	Comments
<p><b>Round-up for Audit Committees</b></p>	<p>This interactive round-up (published in October 2016) is designed to make it easy for Audit Committees, Boards and other users to find the NAO resources most helpful for the strategic management of public sector organisations. The round-up includes a focus on risk, summarising some of the learning points in NAO reports that provide particularly useful lessons for key aspects of risk management.</p> <p>The round-up will normally be published each autumn and spring and look back over six months. As the inaugural edition, this publication highlights NAO reports published over the last year, including an introduction by Sir Amyas Morse, Comptroller and Auditor General.</p> <p>The NAO's full report can be found at:</p> <p><a href="https://www.nao.org.uk/wp-content/uploads/2016/10/Round-up-for-audit-committees.pdf">https://www.nao.org.uk/wp-content/uploads/2016/10/Round-up-for-audit-committees.pdf</a></p>
<p><b>Overview of Local Government and DCLG</b></p>	<p>The NAO has recently published two overviews drawing on their recent work in the local government sector which may be of interest to Audit Committee members.</p> <p><b>Overview: Local government (November 2016)</b></p> <p>This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as the NAO's work with local authorities. It covers:</p> <ul style="list-style-type: none"> <li>• how local government is constituted and funded;</li> <li>• local government spending;</li> <li>• findings from the NAO's work on local government; and</li> <li>• a look ahead to the coming year for local government.</li> </ul> <p>The report can be found via the following link:</p> <p><a href="https://www.nao.org.uk/report/overview-local-government/">https://www.nao.org.uk/report/overview-local-government/</a></p> <p><b>Departmental Overview 2015-16: Department for Communities and Local Government (November 2016)</b></p> <p>This Departmental Overview looks at the Department for Communities and Local Government and summarises its performance during the year ended March 2016, together with NAO's recent reports on it.</p> <p>This guide is designed to provide a quick and accessible overview of the Department and focuses in particular on where the NAO believe the Department's performance could be improved, using examples from its published work. It covers:</p> <ul style="list-style-type: none"> <li>• the department's responsibilities and how it spends its money;</li> <li>• financial management;</li> <li>• reported performance; and</li> <li>• issues identified in NAO reports.</li> </ul> <p>The report can be found via the following link:</p> <p><a href="https://www.nao.org.uk/report/departmental-overview-2015-16-department-for-communities-and-local-government/">https://www.nao.org.uk/report/departmental-overview-2015-16-department-for-communities-and-local-government/</a></p>

# Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p><b>The Commercial Imperative</b></p>	<p>This July 2016 report published by Civica, in partnership with CIPFA, outlines the need for councils to improve their commercial skills and seek new income streams in order to close the current funding gap. The report explores the role of commercialisation as a way for authorities to tackle current financial challenges and become self-sufficient and provides step-by-step guidance on how to find the right path to achieve a sustainable commercial model.</p> <p>Independent research spanning 45 local authorities found that:</p> <ul style="list-style-type: none"> <li>• 40% of local authority leaders say commercialisation plays some part in their current strategy, however, only 4% of public sector CEOs and CFOs say they have significant commercial expertise;</li> <li>• positive progress is being held back by a lack of understanding of what the market needs (36%) and concerns about the risks involved (56%);</li> <li>• a restrictive culture (40%) and discomfort about new models (56%) is also having an impact; and</li> <li>• those with a commercial strategy say commercialisation gives them more control over developments in the community, builds closer relationships with the people they serve and supports the creation of new jobs.</li> </ul> <p>Following increased financial uncertainty and another tough financial settlement for councils in England, where government grants have been cut by 25% and organisations are expected to be financially self-sufficient by 2020, local authorities are looking beyond service reduction towards commercialising services. While commercialised approaches and options are plentiful, finding the right strategy that delivers genuine returns is a task that few local authorities have found easy.</p> <p>The report outlines critical success factors influencing commercial journeys, four ways to generate revenue and six practical steps to help local authority leaders build a sustainable commercial model.</p> <p><a href="http://www.cipfa.org/policy-and-guidance/reports/civica-the-commercial-imperative">http://www.cipfa.org/policy-and-guidance/reports/civica-the-commercial-imperative</a></p>

# Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p><b>CIPFA Annual Chief Financial Officer Survey</b></p>	<p>In December 2016 CIPFA published the results of its annual CFO confidence survey. The survey found that CFOs of English councils claim adult and children’s social care services are facing the most significant budgetary pressures in comparison to other services.</p> <p>When asked which three areas are under the greatest budget pressures, 86% of CFOs identified adult social care, with virtually the same percentage also naming children’s social care (85%).</p> <p>CIPFA reported that this came as reports indicate the government is set to encourage local authorities in England and Wales to raise the social care precept even further to boost adult and children’s services. CIPFA questions whether the precept is the fairest solution to the funding shortfall.</p> <p>The survey also reveals that CFOs are significantly less confident in the ability of their council to keep delivering services in the next financial year in comparison to this year. Thirty-eight percent of CFOs are ‘less confident’ in their organisation’s ability to deliver services in 2017/18, compared to 15% for 2016/17.</p>
<p><b>Other CIPFA publications</b></p>	<p>In recent months CIPFA has issued guidance covering the following topics which are relevant to the authority:</p> <ul style="list-style-type: none"> <li>• 2016/17 Accounts – CIPFA has published Guidance Notes for Practitioners for the Code on LA Accounting, and example accounts and disclosure checklist for the LGPS Accounts</li> <li>• Local Authority Capital Accounting – a reference manual for practitioners</li> <li>• The Guide to Local Government Finance (2016 edition)</li> <li>• A Practical guide to Alternative Models - This guide gives clear explanations of the different types of alternative models and vehicles, their structures and frameworks</li> <li>• Investment Pooling Governance Principles for LGPS Administering Authorities - This guidance supports authorities in demonstrating best practice governance during the implementation of, and when participating in, LGPS asset pooling arrangements.</li> <li>• Property Asset Valuation: A Handbook for Property and Finance Professionals in Local Authorities (2016 Edition) - This examines complex issues surrounding local authority property assets including classification, valuation and component accounting. This new edition provides guidance around the requirements of IFRS 13 for property asset valuations.</li> </ul>

# Appendix 1 - Technical update - NAO/CIPFA publications

Area	Comments
<p><b>'Financial Sustainability of Local Authorities' and 'National Treasury Risk Study'</b></p>	<p>In June 2016 the National Audit Office (NAO) published its report to the Department for Communities and Local Government (DCLG) into the financial sustainability of local authorities: capital financing and resourcing. Since the demise of the Audit Commission this is the first report providing a national perspective on the state of the financial health of local authorities.</p> <p>Their report considers the capital spending and resource implications over the same period and has some expected and more surprising findings. Despite the fall in revenue resources, capital grants over the same period actually increased albeit by 0.2% and the use of other capital resources such as capital receipts has also increased.</p> <p>The major issue around capital financing has been minimising the impact on revenue spending. The report is complimentary of the approaches taken by authorities using prudent treasury management strategies to minimise external borrowing and reviewing MRP (Minimum Revenue Provision). The use of internal borrowing has avoided revenue interest payments and minimised investment cash balances.</p> <p>The report also looks at the role of DCLG in overseeing the systems in place to ensure sustainability and overall concludes that 'assurance' can be taken from the capital framework based upon CIPFA's Prudential Code. However, there are areas where DCLG can improve performance particularly around identifying issues and trends in the sector. Concerns are raised that with the inevitable focus on short-term revenue pressures some decisions such as changing MRP policies and reducing maintenance programmes may not prove to be prudent decisions in the longer term.</p> <p>In order to help the sector and DCLG, CIPFA re-launched its National Treasury Risk Study on 30 September 2016. Aimed at all local authorities the Risk Study provides objective quantification of an authority's treasury position set against the best practice CIPFA treasury risk framework. The analysis is carried out based on portfolio positioning, the latest balance sheet position and projected spending plans. The results are to be provided to each authority free of charge and will set individual positions and risk strategies against participating peers. The results will also be shared with DCLG to aide with their identification of long term trends within the sector. CIPFA encouraged all authorities to participate to enhance their own decision making and benefit all stakeholders in the sector.</p> <p>NAO's full report and CIPFA's survey can be accessed via the links below:</p> <p><a href="https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/">https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</a></p> <p><a href="http://www.cipfa.org/services/advisory-and-consultancy/financial-resilience-advisory-report/risk-management-study">http://www.cipfa.org/services/advisory-and-consultancy/financial-resilience-advisory-report/risk-management-study</a></p>

# Appendix 1 - Technical update - NAO and PSAA publications

Area	Comments
<p><b>Updated Guidance to Auditors</b></p>	<p>The Local Audit and Accountability Act 2014 provides the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance. To support auditors in their work and facilitate the consistency of approach between auditors, the NAO publishes a series of Auditor Guidance Notes (AGNs). Auditor guidance notes, and supporting information (where relevant) are published on the NAO's website:</p> <p><a href="https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/">https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</a></p> <p>In December 2016 the NAO updated:</p> <ul style="list-style-type: none"> <li>• <i>Auditor Guidance Note 1 (AGN 01) – General Guidance.</i> This is relevant to all auditors of local bodies. It sets out the overall framework for issuing guidance and for providing other support to local auditors. AGN 01 explains the status of statutory guidance issued by the NAO on behalf of the C&amp;AG. It also explains that the NAO issues supporting information and describes arrangements for engagement between the NAO and auditors. There continues to be a section in the AGN on co-operation between local auditors and a section on whistle-blowing. The AGN also continues to set out the protocol that auditors should follow when dealing with technical and legal queries. The main revision to the AGN is to update explanatory and supplementary guidance on meeting the requirements in the <i>Code of Audit Practice</i> to safeguard integrity, objectivity and independence in the conduct of local audit.</li> <li>• <i>Auditor Guidance Note 7 (AGN 07) – Auditor Reporting.</i> This is relevant to all local auditors of bodies covered by the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code) including auditors of foundation trusts. The updated AGN 07 reflects some minor consequential changes arising from revisions to AGN 01, and to refer to NHS Improvement instead of Monitor where relevant.</li> </ul>
<p><b>Report on the results of auditors' work 2015/16: local government bodies</b></p>	<p>This Public Sector Auditor Appointments (PSAA) December 2016 report summarises the results of auditors' work at 497 principal bodies and 9,756 small bodies for 2015/16. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.</p> <p>PSAA concluded that the timeliness and quality of financial reporting for 2015/16, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. The number of principal bodies that received an early unqualified audit opinion (by 31 July) doubled compared with 2014/15. In spite of the challenges they are facing, principal local government bodies are working hard to maintain high standards of financial reporting. The latest results of auditors' work on the financial year to 31 March 2016 show a good position for the majority of organisations. PSAA's report can be accessed via the link below:</p> <p><a href="http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/">http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/</a></p>



# Appendix 1 - Technical update - DCLG and Home Office

Area	Comments
<p>The provisional 2017-18 local government finance settlement</p>	<p>In December 2016 DCLG published the provisional settlement. The publication set out DCLG's proposals for: <u>The distribution of central resources</u> – it outlines:</p> <ul style="list-style-type: none"> <li>• the second year of the multi-year settlement offer for those councils that accepted the Government's offer, and arrangements for those that did not</li> <li>• the reforms to the New Homes Bonus, following consultation earlier this year</li> <li>• the introduction of an Adult Social Care Support Grant to be funded from additional savings from the New Homes Bonus in 2017-18</li> <li>• the confirmed approach to distributing funding through the Better Care Fund and the allocation methodology.</li> </ul> <p><u>Changes to local resources</u> - including:</p> <ul style="list-style-type: none"> <li>• the Government's proposals for the council tax referendum principles for 2017-18;</li> <li>• changes to the approach for adjusting Business Rates (BR) tariff and top ups to manage the impact of the 2017 BR revaluation on local authorities' income;</li> <li>• confirmation of the methodology, for the final settlement, for calculating amongst other things the agreed changes in the local share of retained BR; and</li> <li>• confirmation of the mechanism for voluntary transfer of funding between the Mayoral Combined Authority and constituent authorities.</li> </ul> <p>The consultation period ended 13 January 2017.</p>
<p>Organised Crime Procurement Pilot Report</p>	<p>The Home Office has produced an <i>Organised Crime Procurement Pilot Report</i>, which has been circulated to all local authorities, police forces and police and crime commissioners in England and Wales. The report provides findings from pilot studies it has undertaken on the threat that serious and organised crime poses to publicly procured services in local authorities and how to respond to that threat. The report estimates that of the £2.1 billion of local government fraud in 2013, £876m related to procurement fraud. Local government spent around £60 billion on procurement (excluding central services) in 2014-15, so this area is considered to be attractive to serious and organised criminals.</p> <p>The pilots indicated the sectors most at risk were waste services, taxi/transport services and low value spending (generally payments in the hundreds of pounds and in schools for property maintenance services). These sectors can be more vulnerable because they are predominantly cash-based businesses; enable high-value cash transactions; can have market domination within geographical areas; have predictable returns or high levels of potential profit; and present opportunities to launder cash by, for example, acting as a 'front' company. Local authority taxi contracts were identified as being at particular risk. The main focus of those contracts is to provide transport for some of the most vulnerable members of society, and criminal groups can use taxis to gain access to the vulnerable.</p> <p>The Home Office is recommending that local authorities share the report and its findings with senior management teams to raise awareness among those responsible for procurement, finance, fraud investigation, internal audit and licensing. The Home Office recommends that authorities liaise with the police as well as organised crime local multi-agency partnership groups in order to identify the greatest areas of risk.</p> <p>The report includes suggestions to strengthen arrangements, and in addition, the Home Office has also produced tools to both raise awareness and protect and reduce vulnerability:</p> <ul style="list-style-type: none"> <li>• <u>A Serious and Organised Crime Checklist</u> - this enables local authorities to quickly assess their serious and organised crime risks within their organisation.</li> <li>• <u>A Serious and Organised Crime Audit</u> - a more developed methodology that allows local authority internal audit teams to scrutinise business operations to establish where there may be vulnerabilities.</li> </ul>

# Appendix 2 - 2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	April 2017	Complete
<b>Substantive procedures</b>			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements.	September 2017	TBC
<b>Completion</b>			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	October 2017	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	January 2018	TBC



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

**Bolsover District Council**

**Audit Committee**

**11 April 2017**

<b>INTERNAL AUDIT PLAN 2017/18</b>
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This report is public

**Purpose of the Report**

- To present to Members for consideration and agreement the Internal Audit Plan for 2017/18.

**1 Report Details**

- 1.1 A key requirement of the Public Sector Internal Audit Standards is that a periodic risk based plan should be prepared that is sufficiently flexible to reflect the changing risks and priorities of the organisation. The risk based plan should be fixed for a period of no longer than one year, should outline the assignments to be carried out, their respective priorities and the estimated resources needed.
- 1.2 The internal audit plan is linked to BDC's corporate plan objective to provide customers with an excellent service. Audit reviews report on the operation of controls in place and recommend improvements.
- 1.3 A note explaining the role, purpose and some of the terminology used in the internal audit plan is attached at Appendix 1.
- 1.4 An annual report summarising the outcome of the 2016/17 internal audit plan will be presented to this Committee after the year-end.
- 1.5 A summary of the internal audit plan for 2017/18 is shown below and the detailed plan is shown as Appendix 2.

**Internal Audit Plan 2017/18**

<b>Summary</b>	<b>Audit Days</b>
Main Financial Systems	175
Other Operational Audits	125
Computer / IT Related	15
Fraud and Corruption	10
Corporate / Cross Cutting	88
NFI Key Contact	15

Special Investigations & Contingency	40
Audit Committee / Client Liaison	15
<b>Grand Total</b>	<b>483</b>

- 1.6 The plan has been prepared taking into account the following factors:-
- The organisational objectives and priorities;
  - Local and national issues and risks;
  - The requirement to produce an annual internal audit opinion;
  - The organisations assurance framework;
  - An update of the internal audit risk assessment exercise covering the financial control and other procedures subject to audit;
  - The fraud risk register;
  - The Council's strategic risk register and
  - The views of the Executive Director Operations and other managers.
- 1.7 It should be noted that in terms of IT coverage a meeting has been held with the ICT Manager and Director of Operations to discuss where Internal Audit time spent would be most productive. In terms of network and cyber security assurance is received via the external accreditation of PSN. Internal audit will therefore ensure that BDC has received PSN accreditation but will then focus on reviewing a system/s to verify that the data within that system and access to the system is suitably controlled and secure and that data protection requirements are met.
- 1.8 Resource availability has been based on the Consortium Business Plan for 2017/18. The plan allocates 483 days to Bolsover District Council which is the same allocation as for 2016/17.
- 1.9 A copy of the audit plan is provided to the Council's external auditor to assist in co-ordination of work programmes.
- 2.0 Conclusions and Reasons for Recommendations**
- 2.1 To ensure that a risk based audit plan is adopted and to determine the internal audit work programme for 2017/18.
- 2.2 To comply with the Public Sector Internal Audit Standards.
- 3 Consultation and Equality Impact**
- 3.1 None.
- 4 Alternative Options and Reasons for Rejection**
- 4.1 Not Applicable.

## **5 Implications**

### **5.1 Finance and Risk Implications**

5.1.1 Financial – the internal audit budget for 2017/18 has been approved by the Joint Board and includes a contingency to cover any unforeseen circumstances etc.

5.1.2 Risk management issues – no formula exists that can be applied to determine internal audit coverage needs. However, as a guide the minimum level of coverage is that required to give an annual evidence-based opinion on internal controls. The level of coverage provided by the proposed 2017/18 internal audit plan will be sufficient upon which to base an opinion.

### **5.2 Legal Implications including Data Protection**

5.2.1 None

### **5.3 Human Resources Implications**

5.3.1 None

## **6 Recommendation**

6.1 That the Internal Audit Plan for 2017/18 be agreed.

## **7 Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	N/A
<b>Links to Corporate Plan priorities or Policy Framework</b>	The report is linked to BDC's corporate plan objective to provide customers with an excellent service

**8 Document Information**

Appendix No	Title
1 2	Internal Audit Plan – Background Note Draft Internal Audit Plan 2017/18
<p><b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
Report Author	Contact Number
Jenny Williams Internal Audit Consortium Manager	01246 217547

**INTERNAL AUDIT PLAN****BACKGROUND NOTE****1. Definition of Internal Audit**

Internal Audit is defined in the Public Sector Internal Audit Standards as:

“.. an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

**2. The Purpose of Internal Audit**

Internal audit is not a substitute for management. It is the purpose of internal audit to assist and support management by appraising the arrangements and procedures established.

There is also a statutory requirement for internal audit in local government contained in the Accounts and Audit Regulations 2015. These regulations require the authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking in to account public sector internal auditing standards and guidance.

**3. The Difference Between Internal Audit and External Audit**

External audit is completely independent of the authority. The Council’s external Auditors are KPMG. Much of the external auditors’ work is determined by statutory responsibilities. Internal audit’s terms of reference are determined and approved by management.

However, there is nevertheless considerable scope for co-operation to avoid duplication of work and to make maximum use of audit resources.

**4. The Scope of Internal Audit Work**

One of the essential elements for effective internal auditing is that the internal auditor should adequately plan, control and record their work.

To determine priorities and to assist in the direction and control of audit work the internal auditor will prepare a plan based on a risk assessment.

The audit plan is divided into the following sections: -

- **Main Financial Systems**

This covers the fundamental accounting and income collection systems of the authority such as payroll, creditor payments, council tax etc. Most of these systems are reviewed on an annual basis due to their importance.



- **Other Operational Audits**  
Audits to be undertaken in services include a review of the controls and procedures in place for areas such as cemeteries and disabled facilities grants.
- **IT Related**  
Topics in this area of the plan include a review of system security. Although only 15 days are specifically allocated to IT, IT issues are also covered within most of the areas examined.
- **Fraud and Corruption**  
Audits specifically related to the prevention of fraud and corruption are covered in this area of the plan. An example is completion of the fraud modules in respect of the main financial systems. It should be noted that a significant number of other audits include an anti-fraud element e.g. income audits.
- **Cross Cutting Issues**  
This area of the plan includes audit subjects that cover all services or are corporate Issues. Examples include work on procurement and safeguarding.
- **Special Investigations**  
A contingency provision is included in the plan to cover the investigation of irregularities or cases of suspected fraud and other problems.

## **5. Delivering the Internal Audit Service**

A three year strategic audit plan is compiled based on an internal audit risk assessment of auditable areas. This risk assessment takes into account the following factors:

Materiality – the amount of funds passing through the system

- Control Environment / vulnerability – assessed level of control based on previous audit findings
- Sensitivity – profile of the system in relation to customer service
- Management concerns – any specific issues relating to the operation of the system e.g. Council's Strategic Risk Register

Using a scoring system, audits are then categorised as High, Medium or Low risk. This ranking is then used to compile the annual audit plan.

The areas of audit work set out in the agreed plan are split into individual audit assignments.

An audit assignment can involve:

- preparation of system notes and a review/analysis of system controls;
- extraction of background information;
- extraction and testing of sample transactions and controls;
- notes of interviews and meetings.

All work undertaken is recorded on detailed working papers. To ensure that all areas

have been covered and appropriate conclusions reached, all working papers are independently reviewed.

A report on the findings and recommendations arising from the audit is sent to the appropriate Director and to the Executive Director of Operations (as Client Officer) at the conclusion of the audit. A response to the recommendations is requested within a set time.

A summary of internal audit reports issued each quarter is reported to the Audit and Governance Committee and an Annual Report is submitted after the end of the year detailing the outcome of the audits completed.

## Appendix 2

### Bolsover District Council Internal Audit Plan 2015/16 – 2017/18

Main Financial Systems	2015/16	2016/17	2017/18	Priority	Last Review	Risk Factor
Main Accounting/Budgetary Control	19	17	15	H	Annual	Main System failure, (Strategic Risk 2)
Payroll	20	20	15	H	Annual	Main System failure, reputation damage
Creditor Payments	15	15	20	H	Annual	Main System failure, financial penalties
Debtors	10	15	15	H	Annual	Main System failure, Loss of income
Treasury Management	15	10	10	H	Annual	Main System failure, misappropriation of funds
Cash and Banking	20	20	18	H	Annual	Main System failure, loss of income
Council Tax	10	20	10	H	Annual	Main System failure, loss of income
Non Domestic Rates	10	10	20	H	Annual	Main System failure, Loss of income
Housing / Council Tax Benefits	20	20	20	H	Annual	Main System failure, Reputational damage
Housing Rents	12	20	12	H	Annual	Main System failure, loss of income
Housing Repairs	20	20	20	H	Annual	Main System failure, reputation damage
Stores	10	10	0	M	16/17	Failure of contract with Travis Perkins
Expenses and Allowances	10	0	0	L	15/16	Wrong payments, fraud
VAT	0	8	0	M	16/17	System failure, financial penalties
<b>Total Main Financial Systems</b>	<b>191</b>	<b>205</b>	<b>175</b>			

<b>Other Operational Audits</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>Priority</b>	<b>Last review</b>	
Active and Healthy Lifestyles	0	0	<b>10</b>	L	N/A	Failure to meet Council priorities
Ambition Project/Funding	0	10	<b>0</b>	M	16/17	Mis- use of funds
Asset Management Arrangements	0	0	<b>10</b>	M	14/15	Value for Money, assets not fit for purpose
Cash Floats and Balances	6	0	<b>0</b>	L	In other audits	Theft, mis-use of cash
Central Garage/Transport	0	11	<b>10</b>	H	16/17	Poor Fleet Management
Commercial Waste	10	0	<b>0</b>	L	15/16	Loss of income
Current contract procedures	0	0	<b>15</b>	M	12/13	Poor contract management
Disabled Facilities Grants	12	0	<b>0</b>	M	12/13	Inability to deliver/fraud
Environmental Health Food Hygiene	0	0	<b>8</b>	M	N/A	Public Health
Environmental Health Licences	10	0	<b>8</b>	H	16/17 part	Loss of income/ safeguarding issues
Gas Servicing	0	10	<b>0</b>	M	16/17	Risk to life, reputation
Land Charges	0	0	<b>8</b>	L	13/14	Loss of income
Final Accounts	10	10	<b>5</b>	H	Annual	Incorrect payments
Health and Safety	8	8	<b>0</b>	M	16/17	Poor practice, reputation,
Homelessness	0	10	<b>0</b>	L	16/17	Reputation, public welfare
Housing Allocations and Lettings	0	0	<b>15</b>	M	14/15	Reputation, fraud
Housing Building/Company	0	0	<b>11</b>	H	N/A	Failure of company
Insurance	0	10	<b>0</b>	M	16/17	Wrong cover levels and type
Leisure Reviews	10	0*	<b>15</b>	M	15/16	Income loss, reputation
Members Allowances	10	0	<b>0</b>	L	15/16	Incorrect payments/fraud
Planning Fees	0	12	<b>0</b>	M	16/17	Loss of income/ fraud
Pleasley Mills/Property Rents	10	0	<b>10</b>	M	15/16	Loss of income
Right to Buy Sales	0	10	<b>0</b>	M	16/17	Fraud
Section 106	0	12	<b>0</b>	M	16/17	Loss of income/fraud/projects not completed

<b>Other Operational Audits</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>Priority</b>	<b>Last Review</b>	<b>Risk Factor</b>
Street Cleaning	0	10	0	L	16/17	Reputation
The Tangent	10	0	0	M	15/16	Loss of income/reputation
<b>Total Operational Audits</b>	<b>96</b>	<b>113</b>	<b>125</b>			
<b>Computer and IT Related</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>Priority</b>	<b>Last Review</b>	<b>Risk Factor</b>
Network Security/DR/PSN Compliance	8	0	0	H	External Assurance	System failures/cyber crime
System Security	0	0	15	M	N/A	Lack of control
BACS	0	8	0	L	16/17	False Payments/fraud
Disaster Recovery	8	0	0	M	15/16	Lost data
Social Media	0	4	0	M	16/17	Reputational damage
<b>Total Computer and IT related</b>	<b>16</b>	<b>12</b>	<b>15</b>			
<b>Cross Cutting Areas</b>						
Corporate Governance and AGS	10	10	10	H	Annual	Poor Governance (Strategic Risk 8)
Performance Management	15	10	10	H	Annual	Poor Governance (Strategic Risk 8)
Data Protection	10	10	10	H	Annual	Mis- use of Data, large fines (Strategic Risk 7)
Emergency Planning	0	10	0	L	16/17	Public Safety (Strategic Risk 5)
Financial Advice / Working Groups	10	10	20	H	Annual	Appropriate controls not in place
Procurement/ credit cards	15	0	18	M	15/16	Fraud, poor value for money
Risk Management	10	0	10	M	16/17	Poor Governance (Strategic Risk 8)
Safeguarding	0	8	10	H	Annual	Public safety, reputational risk
Sickness Absence	0	10*	0	L	16/17	Unhealthy workforce, high absence

							levels (Strategic Risk 3)
Transparency Agenda	10	0	0	L	15/16		Lack of transparency
<b>Total Cross Cutting Areas</b>	<b>80</b>	<b>68</b>	<b>88</b>				
<b>Fraud and Corruption</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>Priority</b>	<b>Last Review</b>		<b>Risk Factor</b>
Fraud Modules	10	10	10	H	Annual		Fraud
National Fraud Initiative	5	0	0	H	15/16		Fraud
Recruitment and Selection	10	0	0	M	15/16		Fraud, poor appointments
<b>Total</b>	<b>25</b>	<b>15</b>	<b>10</b>				
Special Investigations/Contingency	40	40	40	H	Annual		Fraud, loss of income
Alliance Accounts/NFI Key contact	20	20	15	L	Annual		Failure to investigate NFI matches
Audit Committee / Client Officer Liaison	15	15	15	H	Annual		Non compliance with Public Sector Internal Audit Standards
<b>Planned Total Days 2017/18</b>	<b>483</b>	<b>483</b>	<b>483</b>				

**Bolsover District Council**

**Audit Committee**

**11th April 2017**

<p><b>Summary of Progress on the 2016/17 Internal Audit Plan</b></p>
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This report is public

**Purpose of the Report**

- To present for Members' information progress made by the Audit Consortium, during the period 4th January 2017 to 17th March 2017, in relation to the 2016/17 Internal Audit Plan. The report includes a summary of Internal Audit Reports issued during the period and work in progress.

**1 Report Details**

- 1.1 The 2016/17 Consortium Internal Audit Plan for Bolsover District Council was approved by the Audit Committee on the 12<sup>th</sup> April 2016.
- 1.2 The Consortium Agreement in paragraph 9.3 requires that the Head of the Internal Audit Consortium (HIAC) or his or her nominee will report quarterly (or at such intervals as the HIAC may agree with the Committee) to the Audit Committee of each Council on progress made in relation to their Annual Audit Plan.
- 1.3 Attached, as Appendix 1, is a summary of reports issued covering the period 4<sup>th</sup> January 2017 – 17th March 2017, for audits included in the 2016/17 Internal Audit Plan.
- 1.4 Internal Audit Reports are issued as drafts with five working days being allowed for the submission of any factual changes, after which time the report is designated as a Final Report. Fifteen working days are allowed for the return of the Implementation Plan.
- 1.5 The Appendix shows for each report a summary of the Overall Audit Opinion on the audit and the number of recommendations made / agreed where a full response has been received.
- 1.6 The overall opinion column of Appendix 1 gives an assessment of the reliability of the internal controls examined in accordance with the following classifications:

<b>Control Level</b>	<b>Definition</b>
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

1.7 In respect of the audits being reported, it is confirmed that there were no issues arising relating to fraud that need to be brought to the Committee's attention.

1.8 The following audits are currently in progress:

- Payroll
- Health and Safety
- BACS
- Safeguarding
- Transport/Vehicles/Fuel

## **2 Conclusions and Reasons for Recommendation**

2.1 To inform Members of progress on the Internal Audit Plan for 2016/17 and the Audit Reports issued.

2.2 To comply with the requirements of the Public Sector Internal Audit Standards.

## **3 Consultation and Equality Impact**

3.1 None

## **4 Alternative Options and Reasons for Rejection**

4.1 Not Applicable

## **5 Implications**

### **5.1 Finance and Risk Implications**

5.1.1 Regular reports on progress against the internal audit plan ensure compliance with the Public Sector Internal Audit Standards and allow members to monitor progress against the plan.



## 5.2 Legal Implications including Data Protection

5.2.1 None

## 5.3 Human Resources Implications

5.3.1 None

## 6 Recommendation

6.1 That the report be noted.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	None
<b>Links to Corporate Plan priorities or Policy Framework</b>	The report is linked to Bolsover District Council's aims and objectives to provide customers with an excellent service.

## 8 Document Information

<b>Appendix No</b>	<b>Title</b>
Appendix 1	Summary of Internal Audit Reports Issued 4 <sup>th</sup> January – 17th March 2017
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
N/A	
<b>Report Author</b>	<b>Contact Number</b>
Jenny Williams	01246 217547

**BOLSOVER DISTRICT COUNCIL****Internal Audit Consortium - Report to Audit Committee****Summary of Internal Audit Reports Issued – 4th January – 17th March 2017**

Report Ref No.	Report Title	Scope and Objectives	Overall Opinion	Date		Number of Recommendations	
				Report Issued	Response Due	Made	Accepted
B018	Ambition Project	To ensure that the project meets its aims and that the outcomes are properly monitored and reported	Good	30/11/16	21/12/16	1L	1
B019	Housing Repairs	To review and assess the procedures in place	Good	18/01/17	7/02/17	1M 1L	1
B020	Cash and Bank	To ensure that all income is received and banked promptly and accurately	Good	8/02/17	1/03/17	1L	1
B021	Homelessness	To ensure that there is a strategy in place and that all homelessness cases are dealt with in line with policy	Satisfactory	9/02/14	2/3/17	2M	2

Report Ref No.	Report Title	Scope and Objectives	Overall Opinion	Date		Number of Recommendations	
				Report Issued	Response Due	Made	Accepted
B022	Data Protection	For a sample of systems to ensure that data retention guidelines are being complied with	Satisfactory	21/02/17	14/03/17	8 (5M 3L)	Extension given
B023	Budgetary Control	To ensure that there are sound budgetary control procedures in place	Good	2/03/17	23/03/17	0	0
B024	Non Domestic Rates	To ensure that bills are raised promptly and accurately and that there are appropriate collection procedures in place	Good	6/03/17	27/03/17	0	0
B025	Main Accounting	To ensure that the systems and procedures in place are operating effectively	Good	16/03/17	6/4/17	0	0

Notes: For recommendations, H = High priority, M = Medium priority and L = Low Priority.

**Bolsover District Council**

**Audit Committee**

**11 April 2017**

**Accounting Policies 2016/17**

**Report of the Assistant Director – Finance, Revenues & Benefits**

This report is public

**Purpose of Report**

- To request approval by the Audit Committee of the accounting policies that it is proposed to adopt for the current financial year in the preparation of the Statement of Accounts 2016/17.

**1 Report Details**

- 1.1 The Accounting Policies adopted by the Council determine the accounting treatment that is applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year end. They determine the specific principles, bases, conventions, rules and practices that will be applied by the Council in preparing and presenting its financial statements. The accounting policies themselves are published within the Statement of Accounts in accordance with the Code of Practice on Local Government Accounting and incorporate the requirements of International Financial Reporting Standards (IFRS).
- 1.2 The approval of the accounting policies to be applied by the Council demonstrates that due consideration is being given to which policies to adopt and apply and that those charged with corporate governance are fully informed prior to the commencement of the Statement of Accounts preparation of the policies that are being adopted.
- 1.3 This report therefore presents the accounting policies that the Council will apply in the preparation of the Statement of Accounts 2016/17.

**Accounting Policies**

- 1.4 Officers have assessed the accounting policies that are deemed necessary to explain clearly and underpin the accounting treatment of transactions within the Council's Statement of Accounts for 2016/17. In undertaking this assessment a review of all accounting policies previously agreed has been undertaken to check their relevance, clarity, legislative compliance and that they are in accordance with the latest version of the code of practice and IFRS requirements. With regard to the policies proposed in respect of 2016/17 there have been a limited number of minor changes which are seeking to clarify the policies adopted in

respect of 2015/16 and one more significant amendment; costs for overheads and support services are now charged to directorates in the Comprehensive Income and Expenditure Statement in accordance with the Council's internal reporting arrangements. Full details of all the proposed accounting policies for the current financial year are provided at **Appendix 1**.

- 1.5 As the Statement of Accounts for 2016/17 are prepared it may be necessary to amend a policy in order to adopt a more appropriate accounting policy. If this occurs, the change and the reason for the change will be reported back to the Audit Committee at its next available meeting.

## **2 Conclusions and Reasons for Recommendation**

- 2.1 This report sets out the Accounting Policies which it is proposed to adopt in respect of the 2016/17 Statement of Accounts for consideration by the Audit Committee. Given that the policies adopted have a significant influence upon the Accounting Statements it is important that these are given appropriate consideration at the outset of the preparation of the Statement of Accounts. This helps ensure that they are applied consistently in the preparation of the Accounts. The Policies which are recommended for adoption are in line with those that were used in the previous financial year (2015/16) with only one amendment; accounting for costs relating to overheads and support services.

## **3 Consultation and Equality Impact**

- 3.1 This report to Audit Committee is essentially the consultation process concerning the proposed Accounting Policies for this financial year (2016/17). It is largely a technical document but it is important that those charged with governance have the opportunity to review and shape the document.
- 3.2 There are no equalities issues arising directly from this report.

## **4 Alternative Options and Reasons for Rejection**

- 4.1 The Council is required to have appropriate Accounting Policies within its Statement of Accounts. Officers have developed what they consider to be an appropriate set of policies based upon those adopted in previous financial years and taking account of changes as required by current legislation. The preparation and consideration of this reports is part of a process intended to ensure that alternative options are given appropriate consideration.

## **5 Implications**

### **5.1 Financial and Risk Implications**

- There are no direct financial implications arising from this report. The accounting policies will however be used to determine the accounting treatment of the financial transactions of the Council for 2016/17 and will therefore influence the presentation and understanding of the financial position of the Council as at 31 March 2017.

- None of the policies outlined in **Appendix 1** are considered to be in conflict with legislative or IFRS requirements therefore the risk of adopting a policy that contravenes good practice is considered minimal. The greater risk is the failure to ensure that the policy and the actual accounting treatment are consistent. To minimise this risk the final accounts timetable for 2016/17 has officer review time built in to cross check the policies to the actual treatment of items within the accounts.

## **5.2 Legal Implications including Data Protection**

- The agreement of appropriate Accounting Policies is part of the process of ensuring that the Council satisfies its legal obligation to prepare a Statement of Accounts. The accounting policies adopted by the Council must comply with current legislation, the Code of Practice on Local Government Accounting and IFRS requirements. Officers have given careful consideration to the policies detailed at **Appendix 1** to ensure that they meet all these requirements.
- There are no data protection issues arising directly from this report.

## **6 Recommendation(s)**

- 6.1 That the Audit Committee approves the Accounting Policies detailed at Appendix 1 to this report.
- 6.2 Members are requested to note that any proposed amendments or changes to these policies will be reported back to this Committee, together with an explanation for the reasons a change is considered to be appropriate and detailing any financial implications of the amendments.

## **7 Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	None Directly
<b>Links to Corporate Plan priorities or Policy Framework</b>	All priorities

**8 Document Information**

<b>Appendix No</b>	<b>Title</b>
1	Accounting Policies
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
<b>Report Author</b>	<b>Contact Number</b>
Dawn Clarke Assistant Director - Finance & Revenues	(01246) 242214

## **1 Accounting Policies**

### **Notes to the Core Financial Statements**

#### **a) General Principles**

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Council does not have any transactions that are reclassifiable to the Surplus or Deficit on the Provision of Services. As such we have not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be reclassifiable and amounts that are not.

#### **b) Accounting Concepts**

The concepts used in selecting and applying the most appropriate policies and estimation techniques are as follows:

- The qualitative characteristics of financial information - relevance, reliability, comparability and understanding;
- Materiality (all major transactions and events are included);
- The accounting concepts of accruals, going concern and the primacy of legislative requirements.

#### **c) Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for in the year to which it relates and is based on an effective interest rate for the relevant financial instrument rather than the cash flow fixed or determined by the contract;



- Where income or expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

An exception to this principle relates to electricity and other similar periodic payments which are charged at the date of meter reading rather than being apportioned between financial years. Rental income from HRA dwellings is included without an adjustment for the over lap between financial years on the grounds of materiality. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

Income and expenditure are credited and debited to the relevant service revenue account unless they properly represent capital receipts or capital expenditure.

Grant claims are submitted on an actual basis wherever possible. However if the information required is not available then a best estimate basis is adopted.

#### **d) Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

The Council has a number of Call accounts to meet short-term cash flow requirements where no notice is required to access funds.

Call accounts held to make a gain from favourable rates of interest are classed as investments and not cash equivalents. This also applies to Money Market Funds and fixed term investments.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

#### **e) Charges to Revenue for Non-Current Assets**

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

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

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

The Council's policy for the calculation of the statutory provision for the repayment of debt is determined each year by the Council. The Council has decided that for 2016/17 the outstanding general fund debt prior to 1 April 2007 will be repaid at a rate of 4% of outstanding debt per year until the debt is extinguished. Any prudential borrowing for the General Fund incurred after 1 April 2007 is repaid based on the life of the asset concerned.

**f) Collection Fund**

The transactions of the Collection Fund are wholly prescribed by legislation. Billing authorities have no discretion to determine which receipts and payments are accounted for within the fund and which outside. The Collection Fund includes transactions in respect of both Council Tax and Non-domestic Rates.

**Accounting for Council Tax**

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is a Council's precept or demand for the year, plus or minus the Council's share of the surplus/deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to council tax shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from Council Tax payers belongs proportionately to all the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

## **Accounting for Non-Domestic Rates (NDR)**

The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors and the Government. The amount credited to the General Fund under statute is the Council's estimated share of NDR for the year on the basis of the National Non Domestic Rates (NNDR) 1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year from the NNDR 3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to non-domestic rates shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from NDR payers belongs proportionately to all the major preceptors and the Government. The difference between the amounts collected on behalf of the other major preceptors, Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

## **Non-Domestic Rates Appeal**

The Council will commission each year, an independent assessment at 31 March of the outstanding appeals lodged with the Valuation Office Agency (VOA). The assessment will review every individual appeal and estimate the likelihood of the appeal succeeding based on the category of appeal and previous appeal determinations.

### **g) Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the accounting statements; they are disclosed by way of a note to the accounts where it is probable that there will be an inflow of economic benefit or service potential.

### **h) Contingent Liabilities**

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

## **i) Employee Benefits**

### **Benefits Payable During Employment**

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end but which can be carried forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, as this is the period in which the employee takes the benefit. The accrual is charged to the relevant service area of the Comprehensive Income and Expenditure Statement but then is reversed out through the Movement in Reserves Statement so that the annual leave is charged to revenue in the financial year in which the annual leave occurs.

### **Termination Benefits**

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

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

### **Post Employment Benefits**

Employees of the Council are members of the Local Government Pension Scheme (LGPS), which is administered by Derbyshire County Council on behalf of Bolsover District Council. The scheme provides defined benefits to members (lump sums and pensions) earned as employees working for the Council.

### **The Local Government Pension Scheme**

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

- The liabilities of the Derbyshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are measured using the projected unit method and discounted at the balance sheet date rate of return on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of 'spot yields' on AA rated corporate bonds.

The change in the net pension liability is analysed into the following components:

- Service cost comprising:
  - Current Service Cost – the increase in liabilities as a result of years of service earned this year. This is allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past Service Cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years. These costs are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Interest Cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. The cost is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Remeasurements comprising:
  - The Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions Paid to the County Pension Fund - cash paid as employer's contributions to the pension fund in settlement of liabilities. These are not accounted for as an expense.

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

## **Discretionary Benefits**

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **j) Events After the Reporting Period**

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

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

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

### **k) Exceptional Items**

Exceptional items are included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Statement if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item is given within the notes to the accounts.

### **l) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

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

## **m) Financial Instruments**

The Council is required to recognise, measure, present and disclose information about any financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Typical financial assets include bank deposits, trade receivables and other receivables, loans receivable and advances. Typical financial liabilities include trade payables and other payables, borrowings and financial guarantees. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

### **Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### **Loans and Receivables**

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

When loans are made at less than market rates (a soft loan), a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and

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

Any gains and losses that arise on the de-recognition of a financial asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Available-for-Sale Assets**

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

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

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis
- equity shares with no quoted market prices - multiple valuation techniques (which include market approach, income approach and cost approach).

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

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

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

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



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

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

#### **n) Government Grants and Contributions**

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

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

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

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

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

#### **o) Heritage Assets**

Heritage assets are a distinct class of asset which are reported separately from property, plant and equipment and intangible assets.

There is a de-minimis level of £10,000 applied to Heritage Assets in line with the accounting policy on Property, Plant and Equipment. The Heritage Assets held by the Council are currently below the de-minimis level.

#### **p) Intangible Fixed Assets**

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Council (for example computer software) are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are initially measured at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice no intangible asset, held by the Council meets this criterion and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Each intangible asset is tested for impairment each year to see if there is an indication that the asset may be impaired. Any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising from the disposal of an intangible fixed asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

**q) Interests in Companies and Other Entities**

The Council has no material interests in any companies or other entities that have the nature of subsidiaries, associates or jointly controlled entities that would require it to prepare group accounts.

However, the Council has a joint venture in Dragonfly Developments Limited. This is being accounted for as an available-for-sale financial asset. Group accounts are not being prepared based on materiality.

**r) Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the share of expenditure it incurs and the share of income it earns from the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefit for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

The Council has the following jointly controlled operations:

Building Control - with North East Derbyshire District Council and Chesterfield Borough Council

Internal Audit Services - with North East Derbyshire District Council and Chesterfield Borough Council

Procurement Services - with North East Derbyshire District Council, Chesterfield Borough Council, Derbyshire Dales District Council and Chesterfield Royal Hospital

ICT Services - with North East Derbyshire District Council and Derbyshire Dales District Council

Environmental Health Services - with North East Derbyshire District Council as part of the Strategic Alliance

The Council has jointly controlled assets with Chesterfield Borough Council and North East Derbyshire District Council regarding the operation of a crematorium. The Council holds a share of the joint crematorium committee. The Council's share of the crematorium's assets and income and expenditure for 2016/17 is 15%, (2015/16 15%). On the basis of materiality, Bolsover District Council does not include any figures for the joint crematorium within the Statement of Accounts.

**s) Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

**t) Investment Property**

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment line and result in a gain to the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for sale proceeds in excess of £10,000, to the Capital Receipts Reserve.

**u) Leases**

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

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

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

## **The Council as Lessee**

### **Finance Leases**

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception. The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment and applied to write down the lease liability;
- a finance charge (debited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

### **Operating Leases**

The Council also has operating leases where the risk and rewards relating to the leased property remains with the lessor. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

## **The Council as Lessor**

### **Finance Leases**

Where the Council grants a finance lease over a property the relevant asset is written out of the Balance Sheet as a disposal. It is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property, applied to write down the lease debtor (together with any premiums received); and
- Finance income, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt.

The Council currently has no finance leases for property where this policy applies.

### **Operating Leases**

Where the Council grants an operating lease over an asset the asset is retained on the Balance Sheet. Rental Income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments e.g. there is a premium paid at the start of the lease. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the asset and charged as an expense over the lease term.

#### **v) Overheads and Support Services**

The costs of overheads and support services are charged to directorates in the Comprehensive Income and Expenditure Statement in accordance with the Council's arrangements for accountability and financial performance.

#### **w) Property, Plant and Equipment**

Property, Plant and Equipment are non-current assets that have physical substance and are held for use in the provision of services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides is for more than one financial year and the cost of the item can be reliably measured. Expenditure that maintains but does not extend the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. A general de-minimis limit of £10,000 is applied to non-current assets.

## Measurement

Assets are initially measured at cost, comprising purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). If an asset is acquired via an exchange the cost of the acquisition is the carrying amount of the asset exchanged by the Council.

Donated assets are measured at current value. The difference between current value and the consideration paid is credited to the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donated asset has been made conditionally. Until all conditions are met the gain is held in the Donated Assets Account. Gains that are credited to the Comprehensive Income and Expenditure Statement are reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction – historic cost;
- Dwellings – current value, determined using the basis of existing use value for social housing;
- Surplus assets – fair value, estimated at highest and best use from a market participant's perspective;
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use.

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

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

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years. Valuations are undertaken by a professionally qualified valuer.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the value of the accumulated gains
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

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

### **Impairment**

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. If there is an indication of impairment, and it is deemed material, the recoverable amount of the asset is estimated to determine the impairment loss.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the value of the accumulated gains
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

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

## Depreciation

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

Depreciation is calculated on the following bases:

- Land: Not depreciated;
- Buildings: Straight-line allocation over the life of the property;
- Vehicles, plant and equipment: Straight line allocation over the life of the asset;
- Infrastructure: Straight-line allocation over life of asset;
- Council dwellings: Straight-line allocation over the life of the property;
- Community assets (subject to exceptions): Not depreciated.

Items of property, plant and equipment are not depreciated until they become available for use (i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation ceases at the earlier of the date that items of property, plant and equipment are classified as held for sale and the date they are derecognised.

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

Where an item of Property, Plant and Equipment has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately. The Council deems "significant" to be 25% or more of the total cost of the asset. The Council also applies the following de minimis levels with regard to component accounting.

Components are not separately identified where:

- The useful life of the asset is less than 10 years
- The depreciation charge based on the life of the component would differ from that for the total asset by less than £10,000.
- The component life must be materially different to the main asset to be treated as a component.

For grouped assets such as Council Dwellings a practical level of componentisation has been applied which links to the work programmes carried out within the capital programme. An appropriate component life has been assigned to each of these components.



## Disposals

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

To be classified as held for sale an asset must meet the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current value;
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

Assets that are abandoned or scrapped are not classified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset on the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, as part of the gain or loss on the sale of assets. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposals, in excess of £10,000 are treated as capital receipts. A proportion of Housing receipts is payable to central government. The balance of receipts is credited to the Capital Receipts Reserve and can only be used for future capital investment or to reduce the Council's underlying need to borrow.

The gain or loss on the sale of assets is not a charge against Council Tax. Amounts are appropriated to the Capital Adjustment Account in the Movement in Reserves Statement.

**x) Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

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

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

**y) Reserves**

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

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Council.

**z) Revenue Expenditure Funded from Capital under Statute**

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

**aa) Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income. Where the Council is unable to recover VAT it is charged to the appropriate service.

**ab) Foreign Currency Translation**

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

**ac) Fair Value Measurement**

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

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

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

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

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

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

**Bolsover District Council**

**Audit Committee**

11 April 2017

**Derbyshire Audit Forum**

**Report of the Executive Director Operations**

This report is public

**Purpose of the Report**

- To provide to Members of the Audit Committee a copy of the material which was presented at the Derbyshire Audit Forum to assist them in forming a view as to the effectiveness of the Audit Committee operational at Bolsover District Council.

**1 Report Details**

- 1.1 The Audit Committee plays a key role in the governance arrangements of any local authority. As such an effective Audit Committee is crucial to secure the effective operation of governance arrangements within the Council. Given the importance of the Committee's role it is crucial that the Committee gives regular consideration to its effectiveness in practice.
- 1.2 To help evaluate the effectiveness of the Committee and to identify areas for improvement copies of the material presented at the Derbyshire Audit Forum on 26 January 2017 are attached. The event was held at Derbyshire County Council buildings at Matlock and was facilitated by KPMG the Council's external auditors. A further event will be held in Derby on 22 June to which all members of the Audit Committee are welcome to attend. Full details will be provided to all Audit Committee members nearer the time.

**2 Conclusions and Reasons for Recommendation**

- 2.1 To enable the Audit Committee to consider its effectiveness.

**3 Consultation and Equality Impact**

- 3.1 There are no issues arising directly from this report.

**4 Alternative Options and Reasons for Rejection**

- 4.1 Given its role in ensuring the effective operation of the Council it is appropriate that the Audit Committee undertakes regular self-assessment of its performance. The main alternative of not undertaking a self assessment is therefore rejected.

## 5 Implications

### 5.1 Finance and Risk Implications

There are no issues arising directly from this report.

### 5.2 Legal Implications including Data Protection

There are no issues arising directly from this report.

### 5.3 Human Resources Implications

There are no issues arising directly from this report.

## 6 Recommendations

- 6.1 That the Audit Committee consider the attached papers in order to help self assess the effectiveness of current arrangements.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	Not Directly
<b>Links to Corporate Plan priorities or Policy Framework</b>	All

## 8 Document Information

Appendix No	Title
1	<a href="#">KPMG Slides from the Derbyshire Audit Forum held on 26 January 2017</a>
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
<b>Report Author</b>	<b>Contact Number</b>
Bryan Mason Executive Director Operations	2431



# Derbyshire Audit Forum

Venue – Derbyshire County Council  
26 January, 2017

John Cornett  
Tony Crawley

# Agenda

14:00 Welcome and Introductions	14:00 – 14:30 What makes an effective Audit Committee?	14:30 – 15:00 Risk management – the basics	15:00 – 15:20 Break
15:20 – 16:00 Cyber security	16:00 – 16:40 Hot Topics	16:40 – 17:00 Closing remarks Future events?	17:00 Close



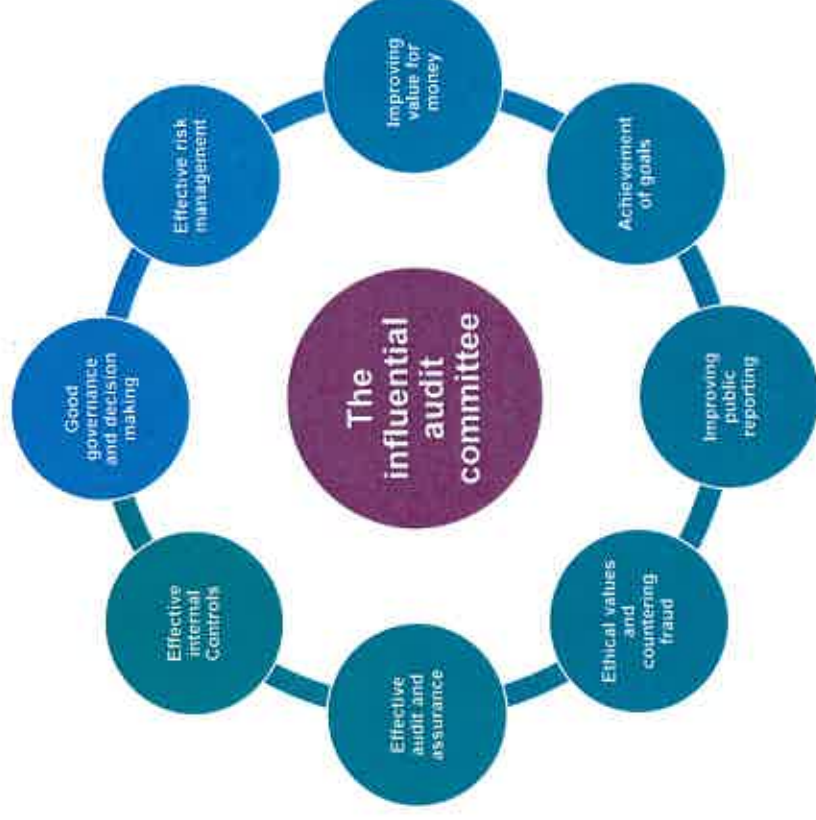
# Effective audit committees



# Effective Audit Committees

‘Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation’s arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.’

CIPFA



Audit Committees: Practice  
Guidance for Local  
Authorities and Police.  
CIPFA December 2013



# Effective Audit Committees

## Characteristics of an effective Audit Committee

- **Membership** – Ensuring that the audit committee has the expertise and experience to provide robust oversight of financial reporting, audit quality, and other risks on the committee’s agenda.
- **Active involvement** – In-depth knowledge of the organisation gained from (pro)active engagement and genuine interest in the organisation (beyond the boardroom).
- **Driving the audit committee’s agenda** – The audit committee must shape its own agenda to ensure that it’s risk-based, focused, and manageable.
- **Effective communication** – Open lines of communication with senior and middle management, internal and external auditors, and the full board based on mutual trust and constructive debate. “White space” time on the agenda for open dialogue.



# Effective Audit Committees

## **Agenda management**

- **Is there a plan for the year to enable the Committee to meet its ToR?**
- **Who sets the agendas?**
- **Do reports map to the terms of reference?**
- **Do all Committee reports pass the ‘so what’ test?**
- **Do you assess whether you get the necessary assurance from each item?**
- **Is it clear who attends the Committee meetings and what you want from them?**
- **Do attendees know why they are there and the assurance you are looking for?**

# Effective Audit Committees

## Meetings

- **Is there sufficient debate?**
- **Are decisions open?**
- **Do Committee members contribute evenly?**
- **Is the focus on quality of discussion rather than quantity of topics covered?**
- **Is there enough challenge and fresh thinking?**
- **Does the Committee take time to self-reflect, and ask for independent views?**
- **Do you recognise any of the issues in the ACI paper?**

# Effective Audit Committees

## **The Committee's accountability for its role**

- **How do you provide assurance that you have delivered your ToR?**
- **Have Members' training needs been assessed and addressed?**
- **What impact has the Committee had?**
- **Have you assessed your effectiveness, and taken action where needed?**
- **Do you provide assurance that you have met your ToR – eg an Annual Report?**



# Risk management (and the AGS)



# Risk management – the basics

Simply.....

**The means to better identify and manage risks in a more co-ordinated manner in order to meet goals and objectives**

**Risk management is NOT...**

... One event

... One size fits all

... Just about being compliant

... About eliminating risk

... The only answer to improving performance

**Risk management IS:**

... A series of actions

... About understanding your corporate objectives and how risks could affect their achievement

... A journey to improving performance and operational excellence

... Subject to the integrity of those accountable

... More than a process: “enterprise-wide” - culture, structure, policies, practice

... Owned by the Board – Practised by management



# Risk management - common issues

CONTENT	
1	<b>The risks contained in the risk register often don't reflect the real risks the organisation is running – identification/ measurement is wrong</b>
2	<b>The risk assessment process by itself won't help manage risk better – you've got to understand the control environment and behavioural aspects</b>
3	<b>Reporting of risk information is still largely compliance driven with observations focusing on the priority of risks rather than on control and improvement actions or developments of the risk management process itself</b>
4	<b>Selling the business case for risk management is still in the 'too hard' tray – many organisations don't have dialogue with their key stakeholders on risk management - investment and return are not clear, risk appetite is not known</b>
5	<b>In many organisations executive management need to take more sponsorship and accountability for risk information and actively use it to improve performance and compliance</b>
6	<b>Often there is no clear framework that co-ordinates risk management and internal control across the organisation – this can lead to confused management structures and policies surrounding risk and lack of focus for internal audit and assurance on what matters</b>
PROCESS	

**Do you recognise any of these?**



# Risk management - choices

## Risk appetite and control options

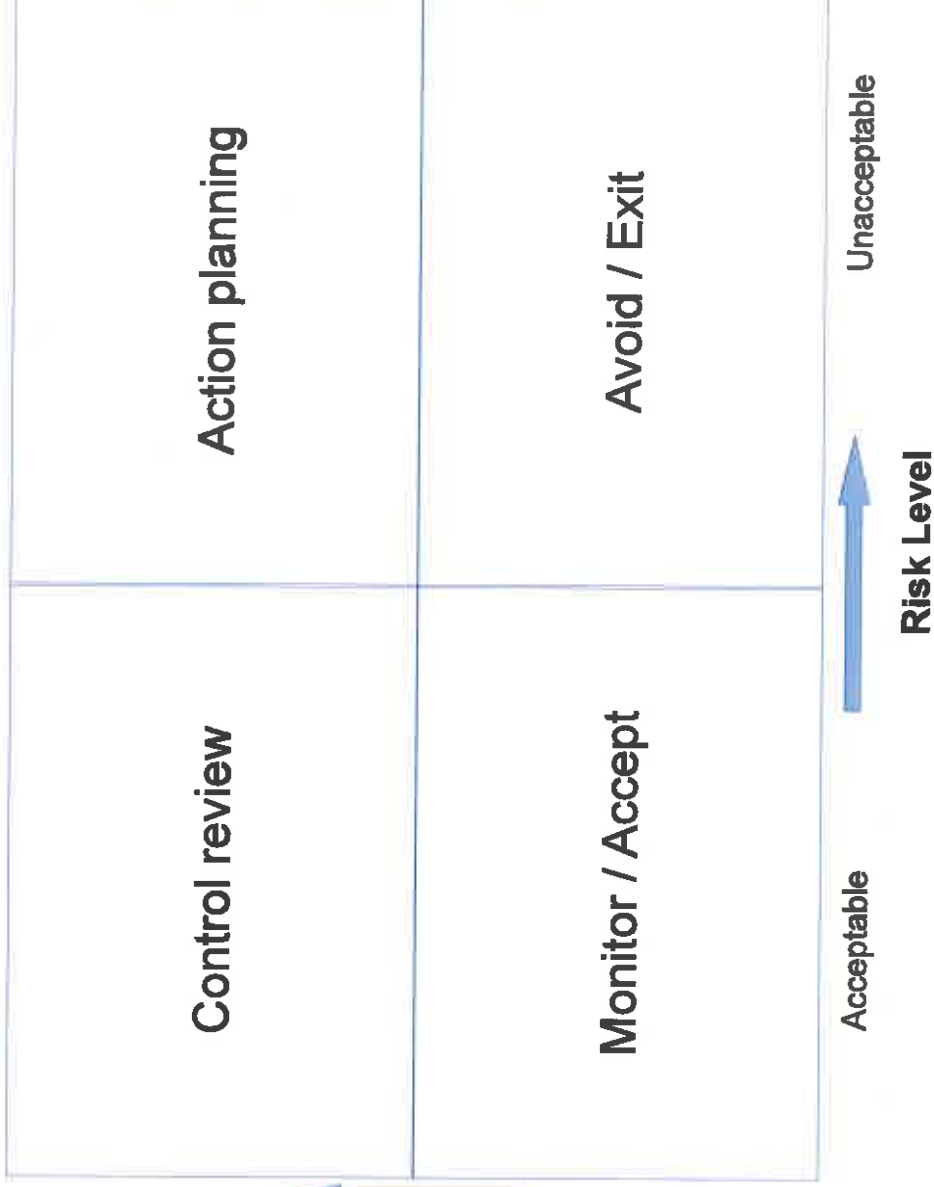
Your risk appetite is a key driver of your response to risks. But:

- It depends on the level of risk
- It depends on your control options – which is partly driven by internal vs external considerations

A lot more we can do

**Control Options**

Nothing more we can do



# Risk management and the audit committee

## **The view from CIPFA**

The role of the audit committee is to:

- 1) **Seek assurance over governance risk**
- 2) **Keep up to date with the risk profile and the effectiveness of risk management;**
- 3) **Monitor the effectiveness of risk management arrangements and embedding good practice**

**Assurance over risk management is key to THE key element underpinning the Annual Governance Statement.**

**The audit committee should not manage or score the risks**



# Annual Governance Statement

**A good AGS should be ....**

- **Open and honest**
- **A clear statement of actions**
- **Built upon a robust assurance framework**
- **Approved and owned at corporate level**
- **Reviewed and approved by Members separately from accounts**









# Cyber risk

# Cyber risk - the key questions

High Level Question	Supplementary Questions
<p><b>How secure are you currently?</b></p>	<p>What have been the most serious security and privacy incidents that you (and your peers) have faced in the past 12 months, what have you learned from those experiences, and what are you now doing differently to prevent them from re-occurring?</p>
<p><b>Are you getting more or less secure?</b></p>	<p>What key indicators are on your security dashboard, how is the organisation achieving those objectives, and how does this compare to your peers?</p>
<p><b>How do you set priorities and risk appetite ?</b></p>	<p>What is your organisational risk appetite for downtime, data loss and privacy incidents, how do you set your appetite level, and how are you tracking against that?                      What are the 'crown jewels' that require the highest levels of protection? Which business processes are critical to survival of the organisation?</p>
<p><b>How are you organised to manage the issue?</b></p>	<p>How is your first line and second line of defence set up? How do you report on the risk? How do you co-ordinate across multiple responsible functions?</p>
<p><b>Are you spending at the right level? And getting value for money for that spend?</b></p>	<p>What are you spending on security over the next three years? Is it enough to appropriately respond to the threat? Where are you under-invested and where can you make savings? Can you defend your investment compared to your peers?</p>
<p><b>How do you manage third party suppliers?</b></p>	<p>How do you ensure your suppliers (and their suppliers in turn) do not expose you to unacceptable cyber risk?</p>

# Cyber-Extortionists Targeting the Financial Sector Are Demanding Ransoms

**LAW360**  
News cases, companies, firms

## 'Cryptolocker' Virus Holds Data For Ransom

By Y. Peter Hong

# ROBBED BY CYBER HACKER

### Common who stole TalkTalk customer details are raiding their bank accounts

Millions affected after cyber attack on HSBC

## Caught, cyber bank robbers off million

U.S. Bank Cyber

### ASHLEY MADISON

Life is short. Have an affair.

Get started by going to your relationship advisor

Please Select

Use Your Mailings

## Morgan Stanley Acknowledges Insider Breach

A former financial adviser allegedly stole 10 percent of the company's 4.6 million Wealth Management customers' account information.

By Jeff Gokhale

Posted January 07 2014

Morgan Stanley this week began notifying almost 10 percent of its Wealth Management clients that an employee had stolen their

Share 0+ 0+ 0+ 0+ 0+

JPMorganChase  
**STATEMENT**

"Companies of our size unfortunately experience cyber attacks nearly every day."

TheGuardian



## Ransomware attack



## Lincolnshire County Council hit by £1m malware demand

© 29 January 2016 Lincolnshire



Tech **Link**

### Ransomware shuts down UK council

Late



## Police investigate Lincolnshire County Council 'ransomware' attack



DATA CENTRE SOFTWARE NETWORKS SECURITY INFRASTRUCTURE DEVOPS BUSINESS

### Security

## Pay up, Lincolnshire, or your data gets it. Systems still down after ransomware hits Council has shut down entire IT network to prevent spread



## Cyber Essentials - Would it have saved Lincolnshire County Council?

By [Simon Sturges](#)

Cyber Essentials is a UK Government driven programme designed to help businesses of all sizes reduce the impact from cyber-attacks. It is a mandatory requirement for those who wish to be considered for the procurement process by the MOD. Cyber Essentials is a baseline security standard which provides services to any other government departments - including local government and schools.

This is a good thing.

Despite there being some coverage of Cyber Essentials in the press, it does not get the attention it merits. It helps businesses prevent things like ransomware spreading their way. Sadly not every government department subscribes to it. Why not?



Around 20 January 2016, Lincolnshire County Council was hit with a ransomware attack. Initial reports from the BBC claimed the demands were for £1m. However by the end of the week this had risen to £2m. The ransomware can be demanding for some users. It has the potential to destroy personal data. Some home users take a proper back up and end up having to pay. This means there is a lot of money to be made. Organisations are affected. The assumption is they won't have back ups. There is also an assumption that they won't have any. The all related government very rarely target businesses with ransomware. What is likely to have happened is simply a visit, a message is sent and they go to sleep. This happens a lot. It is also one of the reasons why Cyber Essentials was created and why it is so valuable for businesses.

## Would Cyber Essentials Have Helped?

When the Cyber Essentials framework there are the security control areas. These are the foundations of good security.



## Cyber extortion is a growing threat

Warwick Ashford

0114 237 0100

in

Security industry warns of increase in attacks as Lincolnshire County Council faces ransomware demand

## What was the impact?

- The council suffered reputational damage;
- Library systems down (books were manually stamped);
- Online booking systems failed;
- Council main site halted;
- Financial losses;
- Productivity stifled.



## What did they do about it?

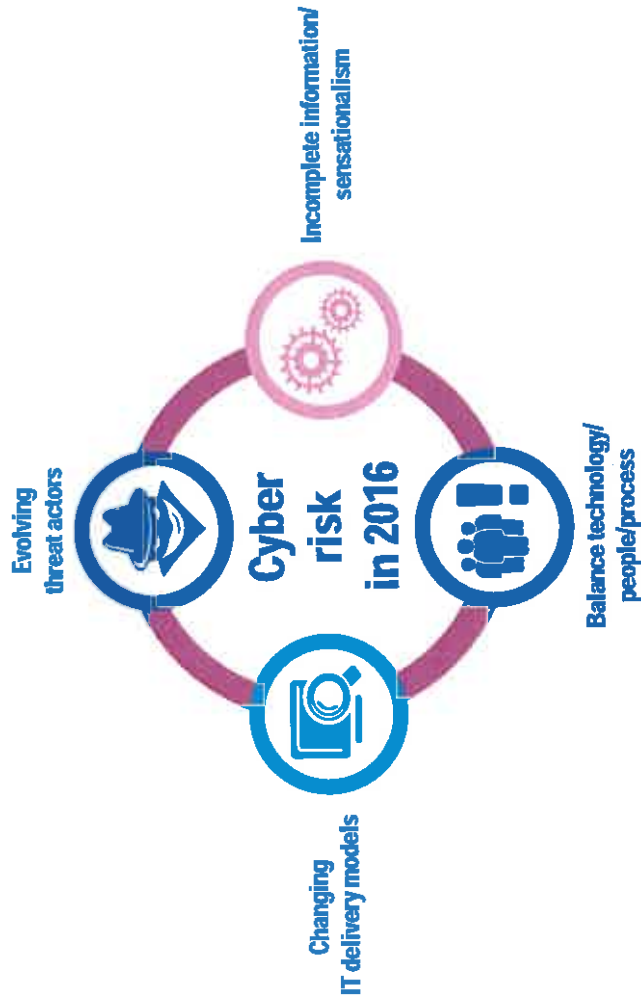
- Lincolnshire County Council acted as soon as the malware was detected preventing further damage
  - Therefore, only a small amount of their data was affected.
  - The Council had everything backed up so data affected could be restored.
- They worked with an outsourced security company to get their services back and running.
- The Council said it had notified the Information Commissioner's Office (ICO) about the incident, but said no personal data had been compromised.





# Cyber Security Landscape

This is a “wicked” problem – multi-dimensional, unpredictable, intangible and constantly changing



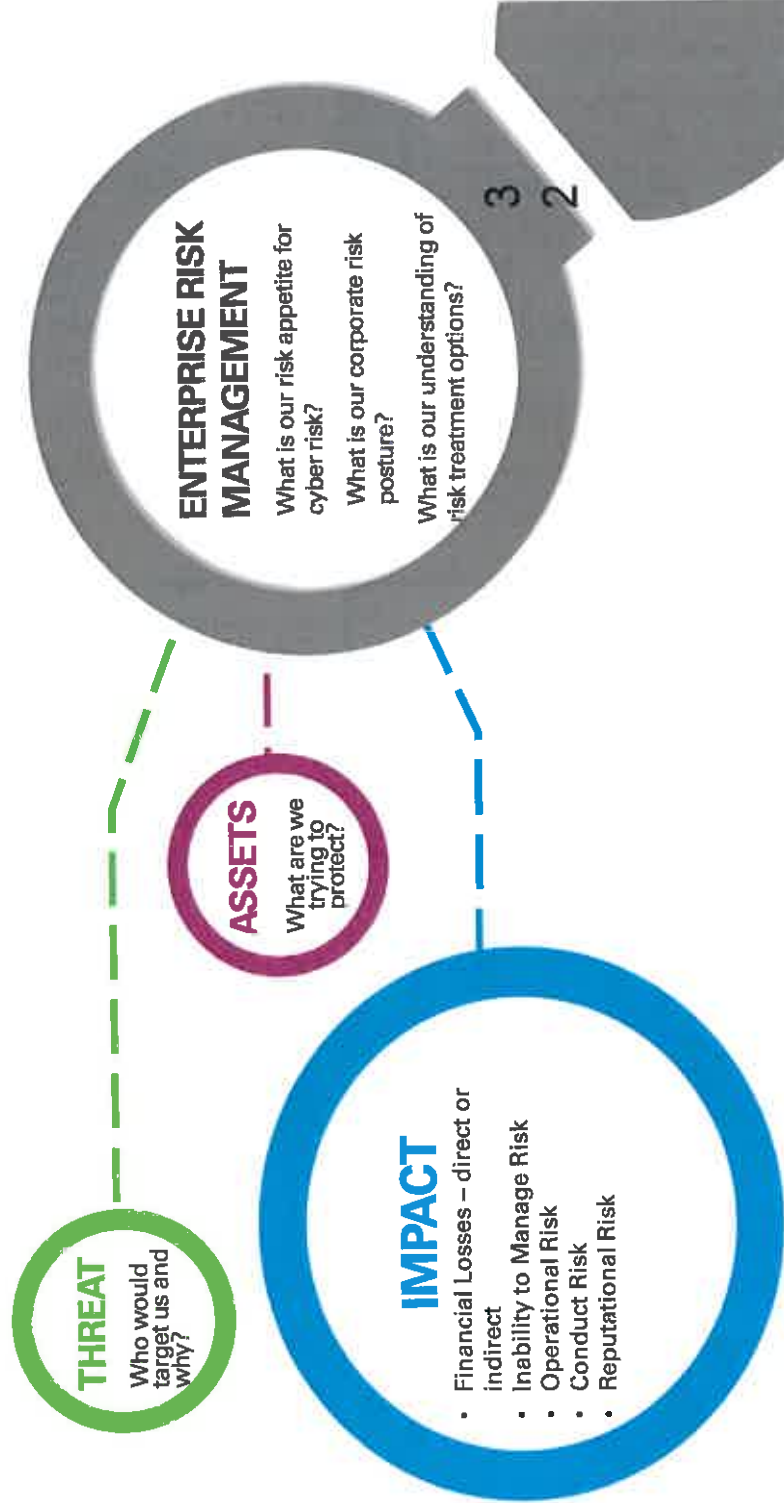


# WHO WOULD WANT TO TARGET US AND WHY?

## WHY?







# Key Questions - Different levels

Are we a security resilient organisation?

Will future acquisitions change our security posture

The Board



Do our long term business plans change our information security risk position?

What do our clients think about our approach to information security?

Is our information security strategy adequately mitigating the threats?

Are we taking a consistent and efficient approach to information security risk globally?



COO & CIO

Are we spending the right amount on information security?

Do we have effective governance and control in place for information security?

Do I have the right strategy?

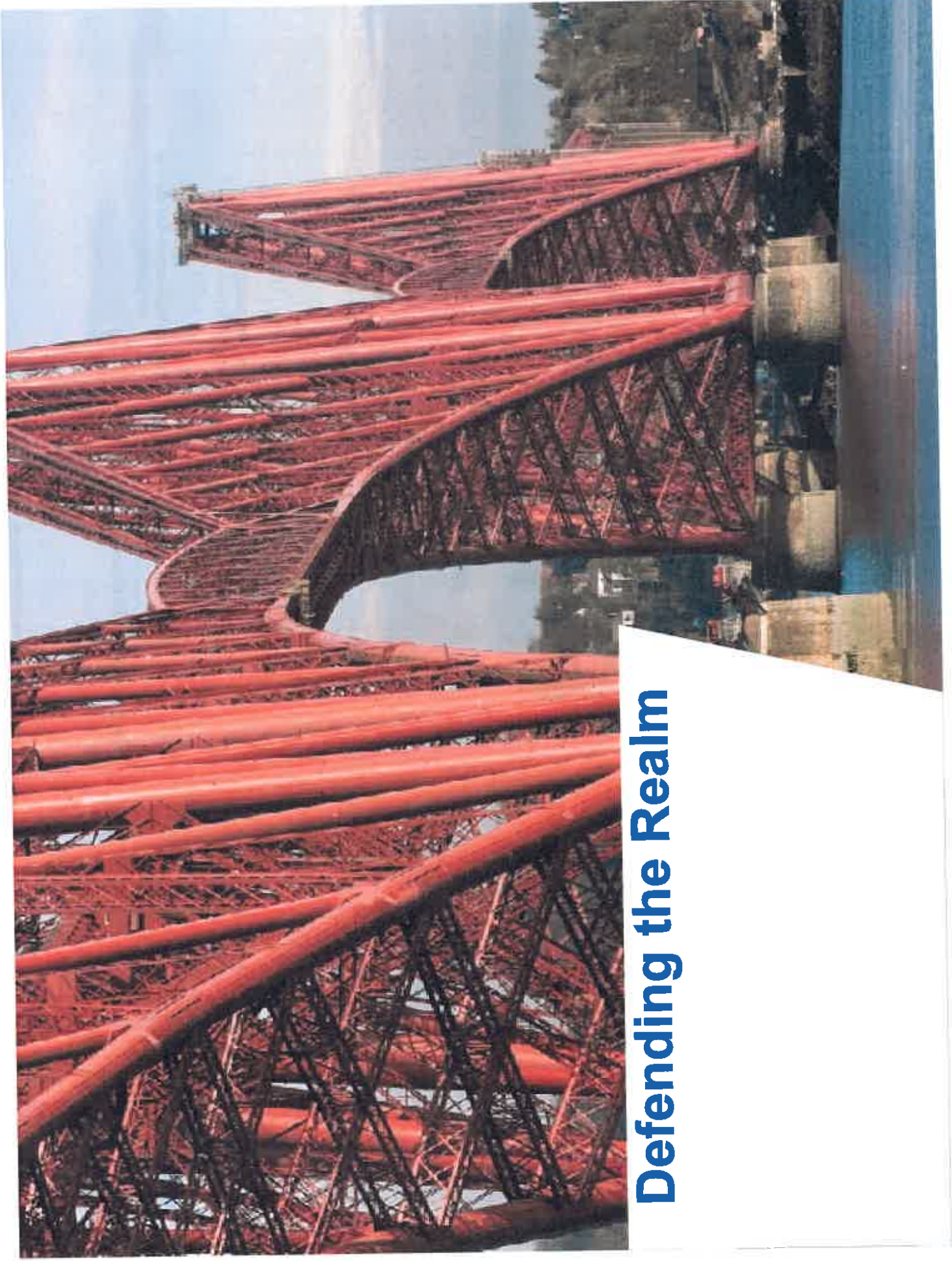
How does our security capability compare to our peers?



Head of Information Security

Am I investing in the right improvement projects?

Do I have the right talent and skills in my team?



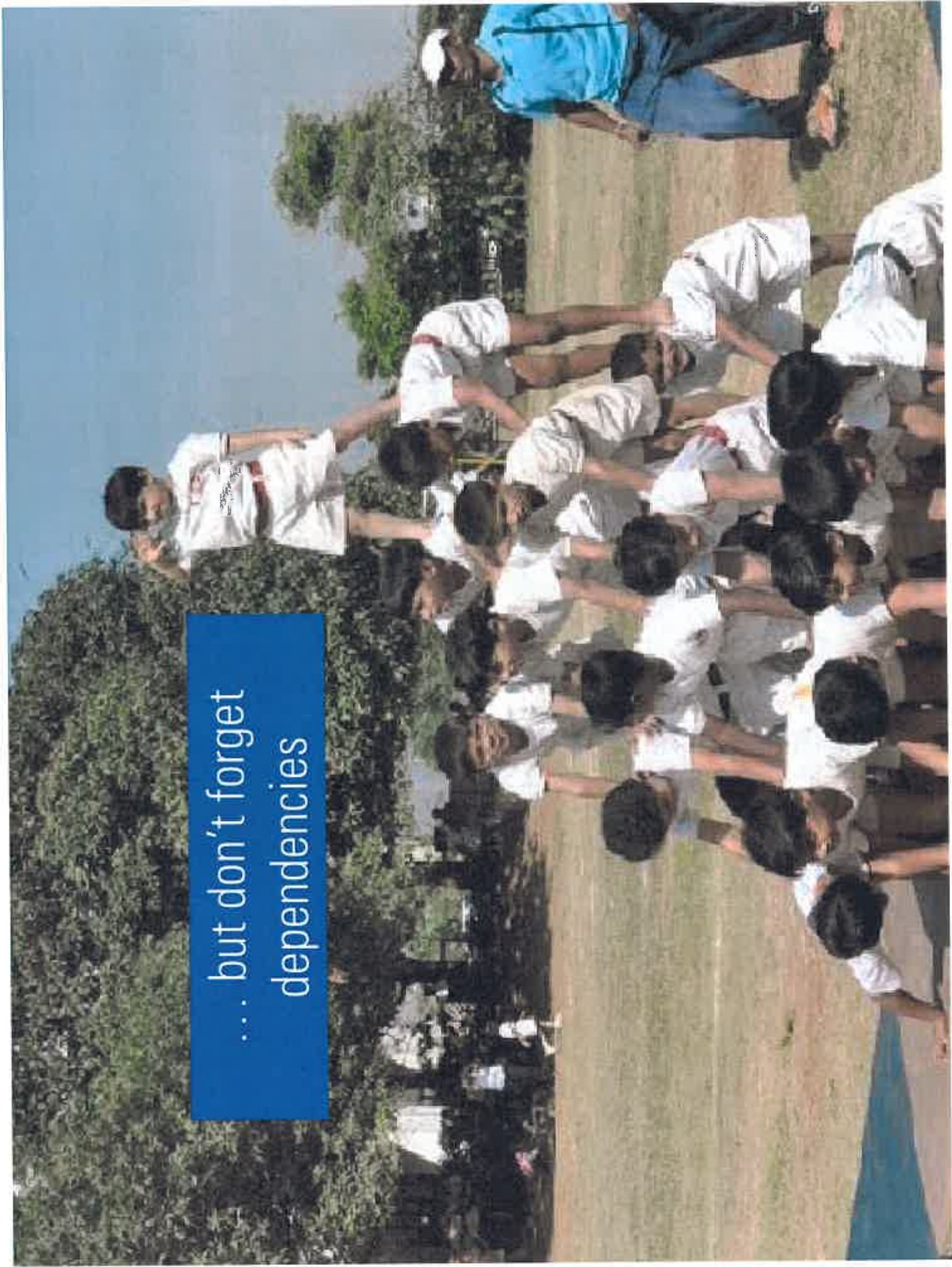
**Defending the Realm**

A photograph of a museum display. A large, ornate golden crown with intricate filigree, pearls, and a central blue gemstone sits on a red velvet-lined pedestal. To its right, a scepter with a long, light-colored shaft and a decorative golden headpiece stands vertically. In the foreground, another smaller golden crown is partially visible. The background is dark, highlighting the jewelry.

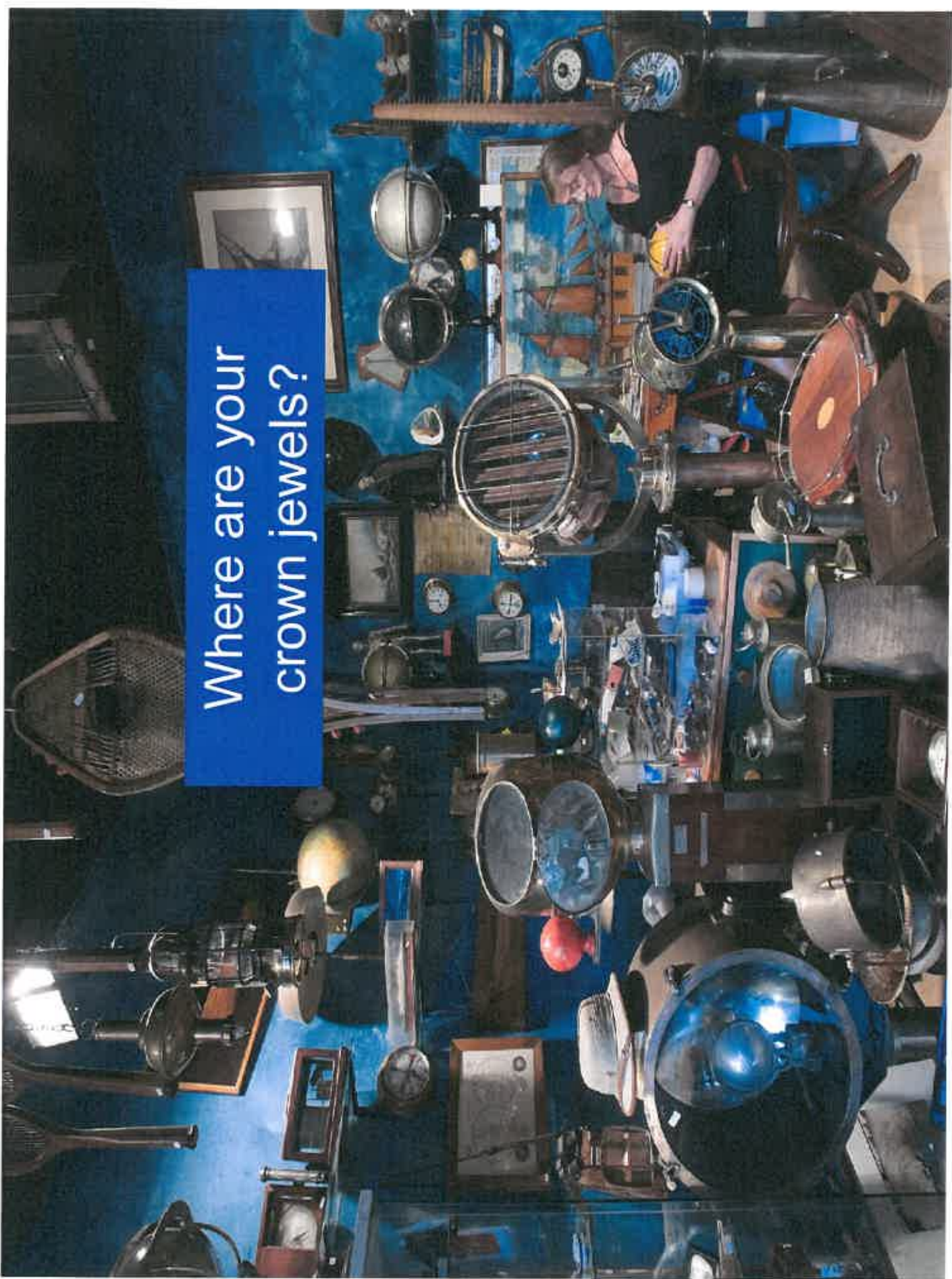
Know thy Crown  
Jewels!



... but don't forget dependencies



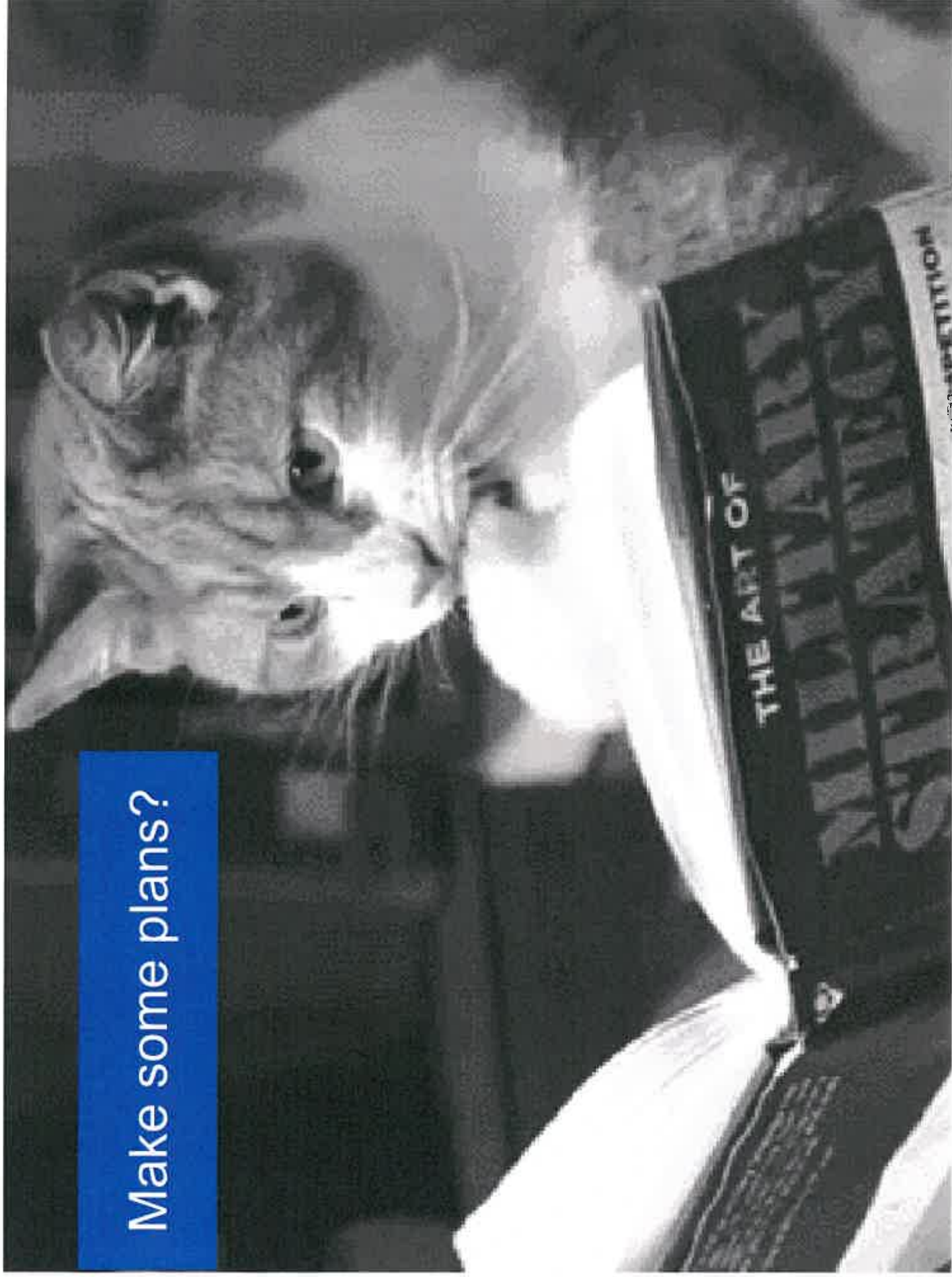
Where are your  
crown jewels?



# Could your crown jewels be.....

- **Shared with 3<sup>rd</sup> parties?**
- **In your supplier's networks?**
- **Scattered all around the place?**

Make some plans?

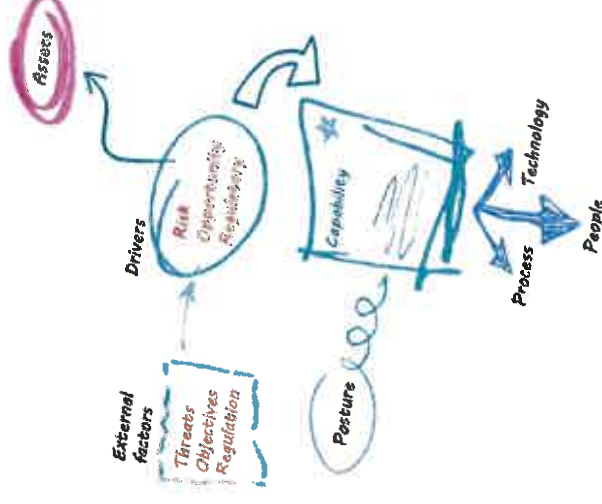
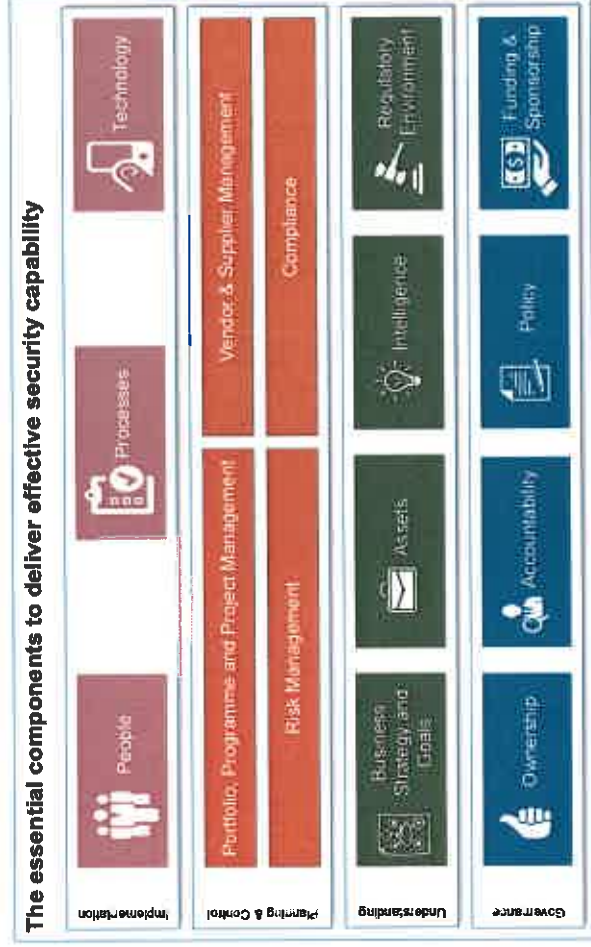


Build some defences



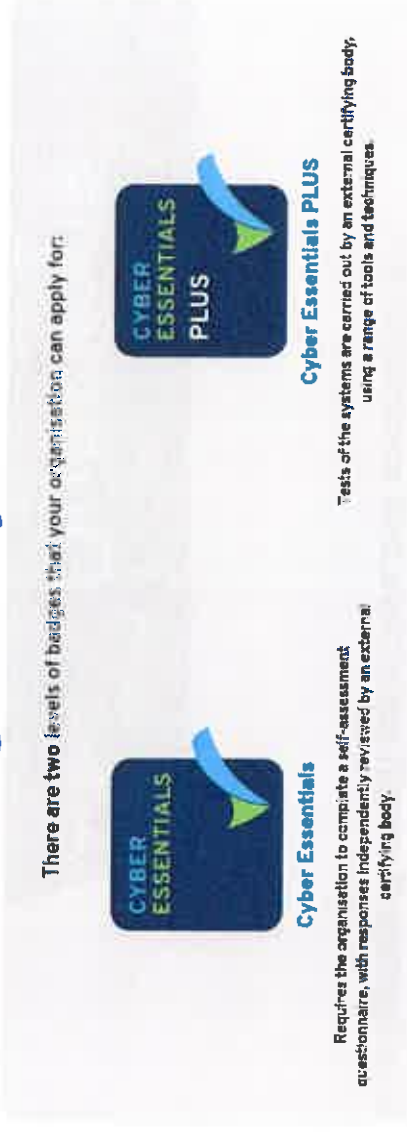


# Response - How can these risks be mitigated



**Common Mistake – The natural desire to find a technical solution to an inherently human problem leads to significant risks left unmitigated or inefficiently addressed**

# Getting the basics right - Cyber Essentials Scheme



Of the basic but successful cyber attacks against UK businesses and citizens of which Government has detailed knowledge, the large majority would have been mitigated by full implementation of the controls under the following, selected categories:

1. Boundary firewalls and internet gateways
2. Secure configuration
3. Access control
4. Malware protection
5. Patch management

To implement these requirements, organisations will need to determine the technology in scope, review each of the five categories and apply each control specified. Where a particular control cannot be implemented for a sound business reason (e.g. is not practical or possible) alternative controls should be identified and implemented.

Source: Cyber Essentials Scheme Requirements

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# Hot topics

# Hot topics

## As a starter . . .

# EU General Data Protection Regulation (GDPR)



# Hot topics - EU GDPR

£ Scale of fines for non-compliance - maximum fine capped at the greater of €20 million or up to 4% of total worldwide turnover.

NEWS Mandatory breach reporting within 72 hours

Requirement for Privacy Impact Assessments (PIAs)

No Safe Harbour

Required use of processors

Significant changes to consent requirements

Mandatory appointment of a Data Protection Officer (for some)

Right to erasure

Enhancement of Data Subject rights

Privacy by design

Increased security requirements

Inventory required

Requirement to register as a Data Controller likely to disappear

Mandatory Privacy policies

Increased transparency needed

# Hot topics

## What are your burning issues?





# Closing remarks

# What next?

## **Are you interested in a Derbyshire Audit Forum?**

**If so.....**

- **Would it benefit other members of your audit committee?**
- **What topics do you want to see covered?**
- **How often would you like to meet?**

**But for now, thanks for coming today!**









The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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## Effective audit committee meetings: Warning signals and potential responses



Agenda overload is not a new issue for audit committees, but our latest ACI survey shows that it's becoming a major concern: 75 percent of the 1,500 audit committee members responding to our 2015 Global Audit Committee Survey said the amount of time required to carry out their audit committee responsibilities has increased moderately (51 %) or significantly (24 %) over the past two years.

So actual face-time across the audit committee table is really precious. Audit committee meetings should be well thought-out and structured in a way that allows the committee to make the most of its time together.

Effective planning and organisation can help ensure that meetings, are used effectively.

In brief, this could include:

- Mapping out the calendar to ensure meetings cover all critical subject matter, but are still flexible enough for inclusion of urgent business when the need arises.
- Avoiding items that should be addressed in board or management meetings.
- Planning the specific agenda for each session ahead of time. Where possible the

planned conversation should also be effectively framed so that the committee members know the purpose of each item. e.g. whether an item is for challenge, debate or "for information".

- Ensuring that committee members have access to the right information and papers in advance of the meeting.
- Identifying clear outcomes i.e. whether a decision or agreed position, and appropriate follow-up.

Inevitably there will be times where, despite a robust planning process, well thought out agenda and timely papers, meetings are still not as effective as they might be. The table overleaf identifies potential issues, the likely warning signals and offers some suggestion as to how the issues might be addressed.

## Effective audit committee meetings: Warning signals and potential responses

Underlying issue	Warning signals	Audit committee chair	Potential responses - Audit committee members	Management
<ul style="list-style-type: none"> <li>Disempowering voices marginalised</li> <li>Difficult issues not sufficiently discussed</li> <li>Debate becomes personalised not issue focused</li> <li>Special insights not used</li> <li>Individuals appear reticent to speak up</li> <li>Third parties stereotyped as out of touch</li> <li>Management team is defensive or aggressive</li> </ul>	<ul style="list-style-type: none"> <li>Build trust and respect with all members. Speaking with them ahead of meetings and make sure they are sufficiently briefed to contribute effectively</li> <li>Give weight to the views raised</li> <li>Lead by example showing that uncertainty and questioning of assumptions is appropriate</li> <li>Play 'devil's advocate' by offering a counter-argument to provide balance</li> <li>Encourage and give all time to new committee members, by asking for opinions</li> <li>Address directly with the chairman of the board if dominance continues</li> </ul>	<ul style="list-style-type: none"> <li>Use the company secretary actively in preparation of papers</li> <li>Pre-agree with relevant executives how particular issues should come to the committee</li> <li>Personally demonstrate behaviour required by querying judgements and assumptions</li> <li>Insist on meeting relevant executives ahead of papers coming to committee</li> </ul>	<ul style="list-style-type: none"> <li>Speak up but avoid dominating airtime</li> <li>Ensure you are fully briefed to offer alternative insights</li> <li>Add value by adding fresh insight</li> <li>Build relationships with other members and rehearse difficult questions or concerns before the audit committee meeting</li> </ul>	<ul style="list-style-type: none"> <li>Seek to understand the knowledge levels amongst the committee members and address when members may be out of their depth and reluctant to contribute.</li> <li>Encourage calling out from induction onwards</li> <li>Consciously ask for input and advice</li> <li>Seek input from specific directors outside board meeting – does overall consensus reached reflect majority of individual opinions?</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee is being 'managed' by the executive team in attendance</li> </ul>	<ul style="list-style-type: none"> <li>Executive present answers rather than options</li> <li>Insufficient focus on the big picture/too much focus on operational matters</li> <li>Probing challenge not welcomed by the executive team</li> <li>Insufficient emphasis on risk</li> <li>Papers not tailored to board needs</li> </ul>	<ul style="list-style-type: none"> <li>Use a facilitative style to manage the debate</li> <li>Use third party briefings or facilitation to increase insight and facilitate opposing views</li> <li>Review the committee membership or their working styles to identify potential gaps in thinking – openly discuss this as a risk</li> <li>Review the style and effectiveness of the boardroom conversation</li> </ul>	<ul style="list-style-type: none"> <li>Respect the executive need for a instant decisions, but push back in the discussion</li> <li>Get to know the business and the people below the top executive team</li> <li>Be active conduits to the external world</li> </ul>	<ul style="list-style-type: none"> <li>Where management team is enlightened and keen to address the balance</li> <li>Use scenarios to show the range of options being considered</li> <li>Use 'reverse stress testing' to demonstrate risk awareness and control</li> <li>Show willingness to suspend own assumptions and seek feedback on approach</li> </ul>
<ul style="list-style-type: none"> <li>'Groupthink' - The audit committee lacks diversity of thought</li> </ul>	<ul style="list-style-type: none"> <li>Constant drive to get through the agenda and move on to next topic</li> <li>Scenarios rarely used</li> <li>Lack of any external input or challenge</li> <li>Assumptions not labelled openly</li> <li>Different opinions or ideas not presented or evaluated</li> <li>'Out of the box' thinking discouraged</li> </ul>	<ul style="list-style-type: none"> <li>Involve multiple inputs when setting the agenda</li> <li>Differentiate agenda items by importance</li> <li>Listen hard for signals of discomfort</li> <li>Don't be afraid to park items for further review where necessary</li> <li>Be prepared to call additional meetings where necessary</li> </ul>	<ul style="list-style-type: none"> <li>Use 'intelligent naivety' to ask the 'non-obvious questions'</li> <li>Keep asking questions in different ways until satisfied</li> <li>Suspend prevailing assumptions</li> <li>Change the angle of debate</li> </ul>	<ul style="list-style-type: none"> <li>Present options and alternatives rather than a fait accompli</li> <li>Actively request debate when positioning difficult issues seen as hanging in the balance</li> <li>Overly welcome the committee's views</li> <li>Ensure the committee has all the relevant information to take a balanced view</li> </ul>
<ul style="list-style-type: none"> <li>The audit committee is overly focused on process</li> </ul>	<ul style="list-style-type: none"> <li>Overemphasis on ticking the boxes at the expense of open discussion or debate</li> <li>Inappropriate allocation of time to critical issues</li> <li>Sense of pressure to get through the agenda</li> <li>Failure to stand back and look at the big picture</li> <li>Unwillingness to challenge the way things are done</li> </ul>	<ul style="list-style-type: none"> <li>Get to know each member by spending time with them outside formal committee meetings</li> <li>Be clear and realistic with members about the contribution and commitment required from outset</li> <li>Encourage that mobile phones are switched off</li> <li>Change the committee's constitution if appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Raise any issues promptly with the audit committee chair</li> <li>Consider whether this is the right NED appointment for you and whether another position may provide greater engagement and job satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Ensure committee members are properly briefed on critical issues and audit committee priorities</li> <li>Provide meaningful and constructive feedback if asked to contribute to the evaluation process</li> <li>Proactively volunteer constructive thoughts from outside the committee</li> </ul>
<ul style="list-style-type: none"> <li>Low commitment/engagement or capability of some audit committee members</li> </ul>	<ul style="list-style-type: none"> <li>Attendance in person but not in spirit</li> <li>Lack of preparation is evident</li> <li>Consistent lack of contribution</li> <li>Focus narrowly on own perspective</li> <li>Too much shooting from the hip</li> </ul>	<ul style="list-style-type: none"> <li>Encourage occasional wide ranging discussion on meeting evaluation at post meeting dinners</li> <li>Meet with each director to gather their views on the quality of conversation/debats and get their suggestions for improvement</li> <li>Consider use of other tools to provide additional awareness e.g. team or personality profiling/evaluation or external facilitation</li> </ul>	<ul style="list-style-type: none"> <li>Insist on the maintenance of high standards</li> <li>Use external experience to support behavioural change</li> </ul>	<ul style="list-style-type: none"> <li>Be sensitive to committee members feeling out of their depth or marginalised</li> <li>Discuss offline and encourage greater contribution, even in areas outside their domain specialisation</li> <li>Share own thinking process with committee members</li> <li>Set expectations of level of commitment and engagement early on at induction stage</li> </ul>
<ul style="list-style-type: none"> <li>Lack of reflection time about the committee's own performance, style and way of operating</li> </ul>	<ul style="list-style-type: none"> <li>Little discussion on how debate could be improved</li> <li>No opportunities to consider 'what might be done differently or better next time'</li> <li>Process suggestions are put down</li> <li>Annual committee evaluation does not get to the real core issues</li> </ul>			<ul style="list-style-type: none"> <li>Provide meaningful and constructive feedback if asked to contribute to the evaluation process</li> <li>Proactively volunteer constructive thoughts from outside the committee</li> </ul>

# Warning signals to look out for during your audit committee meetings:



**Discussion and debate is insufficient or even stifled/discouraged**



**Decisions are frequently presented as answers rather than options**



**There is over-dominance or under-contribution from certain individuals**



**Focus is on the quantity of areas covered rather than the quality of the discussion**



**The level of challenge and consideration of fresh ideas is limited**



**The group rarely self-reflects or accesses third parties for input**

Based on Tomorrow's Company's Good Governance Forum's publication 'Improving the Quality of Boardroom Conversations'.

## Contact

### Timothy Copnell

Chairman, UK Audit Committee Institute

Tel: 020 7694 8082

Email: [tim.copnell@kpmg.co.uk](mailto:tim.copnell@kpmg.co.uk)

Further reading and resources:

The ACI Audit committee handbook is packed full of useful tools:

[Download handbook](#)



**Bolsover District Council**

**Audit Committee**

11 April 2017

**Response to KPMG's Inquiries to Those Charged with Governance**

**Report of the Executive Director Operations**

This report is public

**Purpose of the Report**

- For Audit Committee to consider and agree a response to the KPMG document "Inquiries to those Charged with Governance".

**1 Report Details**

- 1.1 As part of the process of undertaking its work as the Council's external auditors KPMG on an annual basis ask Those Charged with Governance to respond to a series of questions. While within this Council it is the Audit Committee which constitutes the body responsible for Governance the standard approach is that KPMG raise these questions with the Chair of the Committee. The Audit Chair effectively responds on behalf of the Committee.
- 1.2 The position in Bolsover is complicated by the fact that the Chair of the Committee changed mid-year and the current acting Chair has not been through the full annual cycle. Given that the Acting Chair has not been through a full annual cycle she is not in a position to provide the assurances necessary that the controls and arrangements outlined within the draft response have been operational throughout the 2016/17 financial year. Accordingly it seemed appropriate to adopt a process under which the Audit Committee itself considers and agrees the response to KPMG. That response is attached as Appendix 1 to this report for consideration by the Audit Committee.

**2 Conclusions and Reasons for Recommendation**

- 2.1 That the Audit Committee consider the document provided at Appendix 1 and whether to endorse it. .

**3 Consultation and Equality Impact**

- 3.1 There are no issues arising directly from this report.

**4 Alternative Options and Reasons for Rejection**

- 4.1 Those charged with Governance are required to respond to the requests of External Audit for information. While Audit Committee may choose to amend the content of the Appendix it is required to respond on behalf of the Council.

## 5 Implications

### 5.1 Finance and Risk Implications

There are no issues arising directly from this report.

### 5.2 Legal Implications including Data Protection

There are no issues arising directly from this report.

### 5.3 Human Resources Implications

There are no issues arising directly from this report.

## 6 Recommendations

- 6.1 That the Audit Committee consider the attached Appendix and makes any comments they consider appropriate before the Appendix is provided to KPMG the Council's External Auditors.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	Not Directly
<b>Links to Corporate Plan priorities or Policy Framework</b>	All

## 8 Document Information

<b>Appendix No</b>	<b>Title</b>
1	Inquiries – Those Charged with Governance
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
<b>Report Author</b>	<b>Contact Number</b>
Bryan Mason Executive Director Operations	2431

### Inquiries—Those Charged With Governance

Name of Interviewee(s) : Bolsover District Council Audit Committee.

Date(s) of Interview : 11<sup>th</sup> April 2017 (Discussed at Audit Committee Meeting)

Category	Short Description	Detailed Description	Comments (optional)
Fraud	<p>REQUIRED Programs and controls to prevent, detect and deter fraud – oversight by those charged with governance</p>	<p>How do those charged with governance exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the entity and internal controls management has established to mitigate these fraud risks?</p>	<p>The Audit Committee meets approximately 6 times a year and we have assessed ourselves against the CIPFA / SOLACE guidelines for the role of an Audit Committee. Our assessment has strongly supported the view that we are operating in accordance with CIPFA guidelines. Part of these Guidelines is maintaining an overview of the position in respect of fraud. At the Audit Committee we consider and challenge the reports of the Council's Chief Financial Officer, of Internal and External Audit. These have included reports specifically concerned with fraud (our response to the issues raised nationally in the Fighting Fraud and Corruption Locally). These have provided the Committee with up to date details concerning the relative performance of the Council. In addition to reporting national trends the</p>



Category	Short Description	Detailed Description	Comments (optional)
			<p>Committee receives regular updates from the Head of Internal Audit concerning any incidences of fraud within the Council. We are aware that the Council participates actively in the NFI data matching and similar exercises. All marginal internal audit reports are considered by the Committee to ensure that any identified issues regarding internal control weaknesses are addressed and where appropriate the managers responsible are called before the Audit Committee.</p>
Fraud	<p><b>REQUIRED</b> Management's assessment of fraud risks including the nature, extent and frequency of such assessment</p>	<p>What are your views about fraud risks at the entity?</p>	<p>Although fraud is a risk to all organisations the Audit Committee are satisfied that the Council has a strong anti fraud culture in place. This strong anti fraud culture is set out in the Council's Anti Fraud Policy which was reaffirmed by Members in January 2016. It continues a well established policy of zero tolerance to fraud. It is clear that this policy of zero tolerance reflects the attitudes of both the Members of the Council and of those officers with whom we have</p>

Category	Short Description	Detailed Description	Comments (optional)
			regular contact. As part of the launch of the refreshed Policy training / awareness sessions were provided to both Members and Officers. This anti fraud culture is supported by a range of policies and procedures which will help to deter, detect and punish those who commit fraud. While we cannot remove the risk of fraud we are happy that the Council has the right attitude to fraud, procedures that will help to prevent it and effective sanctions against those who commit it.
Fraud	REQUIRED Actual, suspected or alleged instances of fraud	Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?	We are not aware of any significant issues that impact on either the Council's financial statements, or which undermine its financial stability. Staffing matters are managed through the Council's Employee Code of Conduct. While the Council no longer prosecutes Benefit fraud cases in house, these and other cases of suspected fraud are reported to the relevant authorities.
Significant Unusual Transaction	REQUIRED SUTs - existence	Has the entity entered into any significant unusual transactions?	Not that the Audit Committee is aware of, or that has been reported to the Audit

Category	Short Description	Detailed Description	Comments (optional)
			Committee.
Category	Short Description	Detailed Description	Comments (optional)
Operations	Changes in organizational structure	<p>Have there been any changes to the organizational structure of the entity including key areas of authority and responsibility, key personnel, or segregation of duties in accounting and financial reporting?</p> <p>How does management respond to employee turnover in key positions (e.g. IT and accounting)?</p>	<p>Key staff in the senior mgt team and in the Finance function are unchanged with no change of roles and responsibilities of which the Audit Committee are aware. While staff have continued to leave through natural wastage we are not aware of this including any individual who has the capacity to adversely affect internal control.</p>
Objectives and strategies (and related business risks)	Strategies	What are the entity's 3 to 5 most important objectives or strategies?	<p>The Council's most important objectives are the growth and transformation agenda which are targeted at reducing the impact on the Council of the Government's austerity programme. The Audit Committee is aware that there is a strong emphasis through the Council on Financial Governance and as a Committee we work hard to scrutinize the Council's arrangements considering reports from External and Internal audit and senior finance officers.</p>

Category	Short Description	Detailed Description	Comments (optional)
Objectives and strategies (and related business risks)	Strategy changes	Has the entity changed, or does the entity plan to change, any of its significant objectives or strategies?	The current Corporate Plan covers the period to 2019 so the Committee not see any significant changes in objectives occurring in the near future.
Objectives and strategies (and related business risks)	Inability to achieve strategies	Are any of the entity's objectives or strategies at risk of not being achieved?	The Council receives quarterly reports covering Performance, Finance and Risk which have not identified any significant threat to the achievement of agreed objectives.
Laws and regulations	Compliance with legal and regulatory framework	How is the entity complying with the legal and regulatory framework?	The Audit Committee considers this as part of its consideration of the Annual Governance Statement. As part of the process of considering the Annual Governance Statement we are required to assess the effectiveness of the governance arrangements operational within the Council. This consideration takes place at the May meeting of the Audit Committee.

**Bolsover District Council**

**AUDIT COMMITTEE**

**11<sup>th</sup> APRIL 2017**

**KEY ISSUES OF FINANCIAL GOVERNANCE**

**Report of the Executive Director – Operations**

This report is public

**Purpose of the Report**

- The purpose of the Key Issues of Financial Governance report is to track progress concerning the implementation of previous recommendations from both External and Internal Audit and to inform the Audit Committee of progress in addressing those recommendations. It constitutes a standing item on all agendas of the Audit Committee.

**1 Report Details**

- 1.1 This report seeks to update Members of the Audit Committee concerning the main issues of financial governance where further progress or ongoing monitoring is required. In particular the report outlines issues raised by both External and Internal Audit in order to monitor progress in resolving these issues and to evaluate the overall position of the Council's financial governance arrangements. This report reflects both the Annual Audit Letter 2015/16 together with the more detailed ISA 260 report from KPMG both of which have been presented to this Committee. It also considers the latest update report from Internal Audit concerning progress on the Internal Audit Plan which is provided elsewhere on this agenda. The outcome of those reports together with planned management action to address the limited number of issues identified is reflected within this report. The Key Issues of Financial Governance are set out in Appendix 1 which in the view of the Chief Financial Officer constitute the main strategic financial issues currently facing the Council.
- 1.2 The Strategic Issues which are outlined below are consistent with the conclusions of the External Auditors (KPMG) report on the outcome of the 2015/16 Audit. The key messages from that report concern firstly the quality of the Statement of Accounts where the external auditors issued both an unqualified opinion on the Statement of Accounts by the 30<sup>th</sup> September, while concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. While the overall conclusions is a very satisfactory outcome for the Council the detail of the report did identify a limited number of areas where improvement is required and helps clarify where we need to focus efforts to ensure that existing standards are maintained.

- 1.3. With respect to the Council's accounting arrangements the ISA260 report of the External Auditor is a very positive one. On page 7 of that report KPMG summarise the position as follows:

"We received complete draft accounts on 31 May 2016 ahead of the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.

As in previous years the quality of the accounts and working papers was high. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales."

Against the background of the assessment of the 2015/16 Statement of Accounts the main objective appears to be that of maintaining current standards. Given the reputational impact of a critical External Audit report and the additional costs that may be incurred for arrangements which do not meet the auditors requirements it is clearly important that the Council maintains its current high standards in this area. In addition the production of a high quality Statement of Accounts is usually a reliable indicator that the wider financial arrangements within an authority are operating effectively. On that basis it would seem appropriate that the Audit Committee continue to monitor the quality of the process for producing the Annual Accounts on a regular basis.

- 1.4 With regard to the value for money conclusion and the associated risk areas whilst current arrangements are operating well and are fit for purpose, they will need to continue to evolve in the light of changing circumstances if the Council is to continue to secure a positive assessment. The main issue identified was as follows:

- While the Council continues to make good progress in protecting its financial resilience by securing the required in year savings targets the Medium Term Financial Plan continues to identify savings requirements on the General Fund approaching £2m over the next four financial years. In addition to the currently identified savings target the report noted that there are a range of risks or financial uncertainties that are currently facing the authority which will need to be effectively managed if the Council is to secure continued financial sustainability.

- 1.5. With regard to the work of Internal Audit the Council received a total of 3 marginal reports in 2013/14, 2014/15 and 2015/16 which is an indication that standard of internal control are being maintained. An update on the Progress on the 2016/17 Internal Audit Plan is included elsewhere on this Agenda. Of the reports received between 4<sup>th</sup> January and 17<sup>th</sup> March 2017 all were assessed as either Good or Satisfactory therefore it remains the position that during 2016/17 to date some three reports have resulted in a marginal classification. There remain a further five reports which are in progress. While one further marginal report is unlikely to result in serious concerns there is a clear requirement to emphasise to management across the Council the importance of ensuring that internal control arrangements remain effective.

- 1.6. The Strategic Issues of Financial Governance that have been previously identified are summarised in the table below (Appendix 1) which provides an

outline of the issues together with an update of the current position. Given that these are Strategic Issues the responsibility for addressing them rests with the Chief Financial Officer together with the wider management team. Resolution of the issues is also dependent upon the active support of Elected Members. The role adopted by the Audit Committee has been one of monitoring and evaluating progress and where appropriate requiring and supporting further action from officers. While the Council's financial governance arrangements have improved over recent years and are now robust it continues to be important that the Audit Committee adopts a pro active role in order to ensure current standards are maintained.

## **2 Conclusions and Reasons for Recommendation**

### **Conclusions**

- 2.1 The report is intended to provide information to allow the Audit Committee to consider the progress that has been secured in maintaining and improving the Council's financial governance arrangements. While the evidence provided within the report indicates that the Council's financial governance arrangements are robust and on balance are continuing to improve it is important that this progress is maintained and outstanding issues are resolved.

### **Reasons for Recommendations.**

- 2.2 To support the Audit Committee in undertaking its function of providing an ongoing independent review of the Council's financial governance arrangements.

## **3 Consultation and Equality Impact**

### **Consultation.**

- 3.1 There are no issues arising from this report which necessitate a detailed consultation process.

### **Equalities.**

- 3.2 This report does not have any direct implications for Equalities issues.

## **4 Alternative Options and Reasons for Rejection**

- 4.1. Given that the Council has a clear commitment to maintaining the quality of and where possible improving its financial governance arrangements it is appropriate that a formal reporting mechanism is in place to the Audit Committee. This approach is in line with good professional practice and accordingly other options have not been actively considered. While there are other options as to the format of this report the current format has been used for a period in excess of three years and has been amended to reflect the views of the Audit Committee. Over this period there has been a systematic improvement in the Council's Financial Governance arrangements which indicate that the approach adopted has assisted in securing the required outcomes.

## 5 **Implications**

### 5.1 **Finance and Risk Implications**

#### **Financial**

There are no additional financial implications for the Council arising from this report.

#### **Risk**

This report is intended to assist in ensuring that the Council has robust financial governance arrangements in place. As such it is a key mitigation against any failure or weakening in these arrangements which would have a significant impact upon the Council's financial performance, its reputation and its service delivery arrangements.

### 5.2 **Legal Implications including Data Protection**

There are no Legal or Data Protection issues arising directly from this report.

### 5.3 **Human Resources Implications**

There are no Human Resources issues arising directly out of this report.

## 6 **Recommendation**

- 6.1. It is recommended that Audit Committee considers whether the Strategic Issues of Financial Governance as set out in the report reflect the key issues facing the Council, and raises any issues of concern which it may have with progress to date on addressing those issues.

## 7 **Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	None Directly.
<b>Links to Corporate Plan priorities or Policy Framework</b>	Robust financial Governance arrangements underpin the effective operation of the Council and its ability to secure the full range of Corporate Plan Priorities.



**8 Document Information**

Appendix No	Title
1	Key Issues of Financial Governance Update
<p><b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
<p>External Audit Reports ;            “Report to those Charged with Governance 2015/16 ISA 260” (Audit Committee 21st September 2016).            “Annual Audit Letter 2015/16” (Audit Committee 21<sup>st</sup> November 2016)            “Summary of Progress on the 2016/17 Internal Audit Plan” (Audit Committee 21st September 2016, 16<sup>th</sup> January 2017).</p>	
Report Author	Contact Number
Executive Director – Operations (Chief Financial Officer)	2431

Issue Raised	Progress to date including target dates.
<p>1. Take effective steps to balance the Council's budget over the period of the Medium Term Financial Plan.</p>	<p>The Council has a good record in respect of achieving targeted levels of savings over the past few years. On the basis of the MTFP approved in February the shortfall in respect of the current financial year 2016/17 have been resolved and the Council should achieve an in year surplus in excess of £0.4m. While the estimated shortfall of £0.170m in respect of the current year (2017/18) should be easily resolvable, there remains a further shortfall of £1.7m over the final three years of the MTFP, which needs to be addressed at the earliest opportunity. Against this background it is important that the Council continues to progress its growth and transformation strategies to secure financial sustainability and enable it to address the identified shortfall.</p> <p>In addition to the position in respect of the General Fund as outlined above the Council in common with all social landlords will be required to implement a 1% p.a. rent reduction for the four years from April 2016. This policy together with changes in right to buy and the welfare system has a significant detrimental impact on the Council's HRA and the Council will need to continue to actively manage the position to ensure that the 30 year business plan remains robust.</p> <p>Progress in both these areas will continue to be reported as part of the Council's quarterly budget monitoring process.</p>
<p>2. To improve the Council's Internal Control arrangements.</p>	<p>This Key Issues of Financial Governance report, together with reports from Internal and External Audit should enable the Audit Committee to monitor the progress that is being made in respect of maintaining the quality of and securing improvements in our internal control arrangements. Internal Audit have undertaken a more prominent role in the Council's Performance Management arrangements since April 2013.</p> <p>Comprehensive training programme have been delivered to all cost centre managers during the summer of 2014, with a further programme completed during the autumn of 2015. A further programme of training is planned to be provided in spring 2017.</p> <p>Progress reports from the Head of Internal Audit to this Committee will continue to highlight where areas have been assessed as marginal in respect of internal control.</p>
<p>3. To maintain a high standard of external financial reporting particularly in respect of the published accounts, against a background of a reduction in the statutory timescale for the closure of accounts.</p>	<p>The Council has continued to improve the quality of its financial accounts with the Audit report in 2015/16 concluding that our arrangements are robust. That standard needs to be maintained against a background of the significant reputational impact of not securing an unqualified external audit conclusion and the reality that good financial reporting is generally a sign of wider robust financial management. Accordingly the position will continue to be monitored as part of the Key Issues of Financial Governance report.</p>