ASHFIELD DISTRICT COUNCIL

Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Audit Committee

Date:	**Monday, 21st March, 2016**
Time:	**6.30 pm**
Venue:	**Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield.**

For any further information please contact:

Lynn Cain

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01623 457317

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AUDIT COMMITTEE

Membership

Chairman: Councillor Kevin Thomas Rostance

Councillor:

Christopher John Baron	Amanda Brown
Tim Brown	Joanne Donnelly
Tom Hollis	Christine Louise Quinn-Wilcox

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SUMMONS

You are hereby requested to attend a meeting of the Audit Committee to be held at the time/place and on the date mentioned above for the purpose of transacting the business set out below.

R. Mitchell
Chief Executive

AGENDA

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AUDIT COMMITTEE

Meeting held in the Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield,

on Tuesday, 8th December, 2015 at 6.30 p.m.

Present:	Councillor K.T. Rostance, in the Chair; Councillors A. Brown, T. Brown, J. Donnelly and T.J. Hollis.
Apology for Absence:	Councillor C.J. Baron.
Officers Present:	C. Bonar, L. Cain, B. Evans, R. Gaughran, D. Greenwood, A. Slate and C. Turner-Jones.
In Attendance:	H. Brookes and J. Cornett (KPMG). Councillor P. Roberts.

AC.22 Declarations of Disclosable Pecuniary and Non Disclosable Pecuniary/Other Interests

There were no declarations of interest made.

AC.23 Minutes

RESOLVED
that the minutes of the meeting of the Audit Committee held on 28th September, 2015, be received and approved as a correct record.

Minute No AC.19 – Internal Audit Progress Report
Following a discussion at the last meeting in relation to the implementation of a new website following the website audit, the Council's Services Director, Corporate Services, ICT Manager, Website Development Officer and Communication Manager were in attendance to present an update on implementation and progress.

The Service Director, Corporate Services firstly apologised to the Committee that officers were not in attendance at the last meeting to provide an update and secondly that many of the original recommendations arising from the website audit had now been superseded by further opportunities and website developments.

The Website Development Officer introduced himself to the Committee and advised Members that he had joined the Authority in August of 2015. His first task had been to adjust/update the current website to bring the information up to date and ensure the site was functional whilst monitoring website traffic and usage. The next project would be the implementation of a new website for the Authority.

The Communication Manager advised that a Digital & Website Project Group had been established with the aim of driving the corporate management process to secure implementation of the new website. The Chief Executive and Elected Members would also have input into the website development process. It was hoped that the new website would be implemented and launched by May 2016.

Following comments from the Committee Members, it was acknowledged that the current website was not acceptable in the longer term and much work had already been undertaken in the background to fix some of the areas of concern. The Council's web and social media presence needed to be better and the new website would be able to address these issues with the site being updated regularly with the 'look' of the site changing more regularly and having a seasonal feel etc. The ongoing management of the system was also important and this task was currently being considered alongside the responsibilities and remit of the Council's current web authors. It was envisaged that in the future the final publication of any changes to the website would become the responsibility of the Website Development Officer.

The Website Development Officer then explained to the Committee that 60% of the website's traffic was from mobile phones and tablets. Therefore it was paramount that the website could be flexible enough to accommodate all mobile access to the site and the facilities on offer. Following the success of the Council's first App in relation to the waste collection service/reporting of environmental issues it was envisaged that more interactive Apps could be developed in the future to assist with the delivery of the Council's front line services.

In relation to connecting and engaging with youngsters in Ashfield, it was accepted that 'Youtube' was the second most popular search engine and it would be a prudent move for the Council to have more presence on this particular media outlet in the future. Recent conversations with West Nottinghamshire College had secured an arrangement with media students from the Create Department to produce some videos on behalf of the Council for uploading onto the 'Youtube' site.

The ICT Manager informed the Committee that the new website would be far more digitally interactive and it was envisaged that there would be facilities for making payments online, completing application forms and 'getting in touch' online etc. The relationships between the web authors and the ICT Team would be enhanced with checks built into the system for 'timed out' pages and regular reviews undertaken to ensure information remained accurate and up to date.

To conclude, the Service Director, Corporate Services informed Committee Members that the Corporate Leadership Team would be receiving regular performance management data in relation to the new website which would include an exception reporting facility that would enable any issues to be considered and addressed without delay. It was agreed that the officers would attend the Committee meeting again in March 2016 to report on project progress.

AC.24 <u>KPMG - Annual Audit Letter 2014/15</u>

John Cornett presented the Annual Audit Letter for 2014/15. The Letter provided a summary of the key findings from the 2014/15 audit of the Council's financial statements and the Value for Money (VFM) conclusion and confirmed the issuing of an unqualified opinion and conclusion in respect of both issues. The Letter also detailed the fee for 2014/15 which was in line with expectations.

In relation to the VFM audit work and conclusions, the National Audit Office (previously the Audit Commission) had recently reset the evaluation criteria and KPMG were currently evaluating what implications this would have for local authorities and the assessment work required in the future. The Department of Communities and Local Government had also announced that local authorities were now permitted to extend their contracts with external auditors for up to three more years. Following this, it was expected that an opt-in sector-wide body would be established to undertake collective procurement for external audit provision by the Local Government Association (LGA).

RESOLVED
that the Annual Audit Letter, as presented to the Committee by KPMG, be received and noted.

The Chairman took the opportunity to thank John Cornett for his work with the Audit Committee over the past seven years. KPMG required that their officers could only serve up to a maximum of seven years with any local authority before being relocated. Sophie Jenkins, his replacement, would hopefully be in attendance at the next meeting.

AC.25 Non-Compliance with Financial Regulations

The Interim Internal Audit Manager presented a new standing agenda item which detailed the extent of, and reasons for, non-compliance with Financial Regulations by service areas across the Authority. He also outlined the impact of the non-compliance on the Council’s internal control framework and the steps that have been taken to address the non-compliance.

The report outlined the number of invoices that had been raised by all service areas over the preceding four months and the percentage of invoices that were non-compliant with current Financial Regulations. Having acknowledged problems across the Authority with the raising of purchase orders, training had been arranged to endeavour to alleviate some of the issues. It was hoped that the figures would decline of the next financial year as service areas brought their procedures in line with the requirements of the Council’s Financial Regulations.

An updated analysis of non-compliant procurements activity was circulated to all present at the Committee.

Due to the report being for information purposes only, there were no alternative options for Members to consider.

RESOLVED
that the report, be received and noted.

Reasons:
The Audit Committee has a duty to consider the Council's compliance with its own published standards and controls as part of the maintenance of an effective control and governance framework. It is also responsible for oversight of the Council's Anti-Fraud Strategy.

AC.26 Internal Audit Progress Report (1st April, 2015 to 20th November, 2015)

The Interim Internal Audit Manager submitted the report detailing work undertaken by Internal Audit for the period 1st April to 20th November, 2015. The report included a summary of reports where the system status controls had been assessed as providing limited or nil assurance, a summary analysis of all outstanding audit recommendations and details of high priority recommendations not implemented within the agreed timescale.

Members were advised that eight audit reports had been completed or substantially completed during September 2015 to December 2015. Four of the reports had concluded that 'Limited Assurance' could be taken from the framework and controls in place but advised the Committee that this was not surprising given the type of audit reviews being undertaken. These reviews were in relation to, IT Governance, Data Sharing, Access Controls and Upgrade and Patch Management. However, managers were continuing to work to address the recommendations/risks as necessary.

On a positive note, Committee were informed that the number of outstanding recommendations from previous audit reviews had decreased to eleven and were now being consistently monitored through the Council's 'Covalent' system. Managers were also aware of the importance of addressing the recommendations as soon as was practically possible.

Due to the report being for information purposes only, there were no alternative options for Members to consider.

RESOLVED
that the work undertaken by Internal Audit during the period 1st April to 20th November, 2015, be received and noted.

Reason:
To ensure that Members remain informed and up to date in relation to the work of the Internal Audit Section.

AC.27 Internal Audit Partnership – Progress Report

The Interim Internal Audit Manager introduced Adrian Manifold to the Committee and advised that he would be the officer responsible for managing the Council's internal audit work on behalf of the Central Midlands Audit Partnership (CMAP). Following Cabinet approval to join the partnership on 5th November, 2015, the final arrangements were now in place for an official start on 1st January, 2016. The TUPE arrangements had also been finalised in relation to the one employee affected by the reorganisation.

The Committee were asked to note that the Council had an existing agreement to deliver an internal audit service to Ashfield Homes Limited (AHL) but had advised AHL's Management Team in good time that the Council would be joining an internal audit partnership. Pending any decision from AHL regarding their future internal audit commitments, the Council would continue to provide the service via purchased audit days through CMAP for the remainder of its obligation to AHL.

Adrian Manifold then took the opportunity to speak to the Committee and gave a brief synopsis of the background to the partnership and its aspirations for the future. The partnership had a great understanding of all its partner organisations and offered great expertise and specialist support across all areas. The addition of Ashfield District Council to the organisation was welcomed and he looked forward to working with officers and Members in the future.

RESOLVED
that the report be received and noted.

Reason:
The Audit Committee has a duty to satisfy itself as to the adequacy of the Council's internal audit provision.

AC.28 Proposed Changes to the Audit Committee's Terms of Reference

The Interim Chief Internal Auditor presented the report and requested the Committee to consider the proposed changes to the Committee's Terms of Reference.

RESOLVED
that Council be recommended to approve the revised Terms of Reference for the Audit Committee, as appended to the report.

Reason:
The Committee's current Terms of Reference do not reflect recent legislative changes or the Committee's responsibilities in respect of the Public Sector Internal Audit Standards.

AC.29 Anti-Fraud Strategy – Proposed Revision

The Interim Chief Internal Auditor presented the report and sought Committee's approval for the revisions to the attached Anti-Fraud Strategy.

RESOLVED
that Council be recommended to approve and adopt the revised Anti-Fraud Strategy, as appended to the report.

Reason:
The Audit Committee has a duty to monitor the Council’s Anti-Fraud Strategy and to be satisfied that it provides appropriate mitigation for the Council’s exposure to the risk of fraud.

Prior to closing the meeting, the Chairman advised the Committee that this had been the last meeting for Richard Gaughran, the Interim Internal Audit Manager, as he was leaving the Authority the following day. On behalf of the Committee, the Chairman thanked Richard for his hard work, honesty and commitment towards the Council and managing its internal audit function. He wished him well for the future in his retirement.

The meeting closed at 7.46 p.m.

Chairman.

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KPMG Annual Report on grants and returns work 2014/15

Ashfield District Council

February 2016

Contents

The contacts at KPMG in connection with this report are:

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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 Appointment's website (www.psaa.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 John Cornett, 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 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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Headlines

Introduction and background	**This report summarises the results of work we have carried out on the Council's 2014/15 grant claims and returns.** **This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2014/15 is:** ■ Under the Public Sector Audit Appointment arrangements we certified one claim – the Council's 2014/15 Housing Benefit Subsidy claim. This had a value of £35 million. ■ Under separate assurance engagements we certified two returns as listed below. – Pooling of Housing Capital Receipts Return. – Homes and Communities Agency (HCA) Compliance Report	
Certification results	**Our work on the Council's Housing Benefit Subsidy claim was subject to a qualification letter.** A qualification letter was required, due to a number of recurring errors. As in the previous year, our testing identified various errors in calculating benefit including an incorrect eligible rent figure, misclassification of properties between HRA and non HRA, incorrect income figures and misclassification of eligible overpayments, as well as some system generated errors which were reported to the software supplier. Also, the Authority had not run the screen prints/reports used in its 2014/15 reconciliation process on the same date as its subsidy report. **Our work on other grant assurance engagements resulted in the following reports:** ■ Pooling of Housing Capital Receipts Return: we issued an unqualified assurance report. ■ Homes and Communities Agency (HCA) Compliance Report: we issued a qualified assurance report.	**Pages 4 – 6**

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Headlines (continued)

Adjustments	**No adjustments were necessary to the Council’s grants and returns as a result of our certification work this year.** ■ Our work on the Housing Benefit Subsidy claim has not resulted in any amendments to the claim and the findings were similar to the previous year; and ■ Our work on the Housing Pooling return has not resulted in any amendments to the claim and we have no issues to report.. ■ Our work on HCA Compliance resulted in some minor areas of non compliance which were reported to the HCA.	**Pages 4 – 6**
Fees	**The indicative fee for our work on the Council’s 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £16,000. The actual fee for this work was £3,575 higher than the indicative fee. Further work has also been requested by the DWP This work will result in an extra fee which we will agree with the Deputy Chief Executive (Resources) and which will be subject to approval by PSAA.** **Our fees for the other assurance engagements were subject to agreement directly with the Council and are set out on page 6.**	**Page 7**

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Summary of reporting outcomes

Overall, we carried out work on three grants and returns:

- **one was unqualified with no amendment; and**
- **two required a qualification to our certificate. The qualification relating to HCA Compliance refers only to the minor issues reported to the HCA.**

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council's 2014/15 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments arrangements					
▪ Housing Benefit Subsidy	①	●			
Other assurance engagements					
▪ Pooling of Housing Capital Receipts	②				●
▪ HCA compliance reporting	③	●			

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Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
❶	**Housing Benefit Subsidy** The audit approach is mandated by the Audit Commission and DWP. Testing involves a 'discovery sample' of 20 cases for each benefit type (total 60 cases), with further testing of each cell affected by errors found either in the current year's discovery testing or in previous years, on the basis that errors identified in the previous year may recur in the current year. It is a consequence of the volume of testing that errors are repeatedly found. We have identified issues that have been reported for a number of years, including the following: • incorrect eligible rent figure • misclassification of properties between HRA and non HRA • incorrect income figures • misclassification of eligible overpayments • some system generated errors which were reported to the software supplier. Also, the Authority had not run the screen prints/reports used in its 2014/15 reconciliation process on the same date as its subsidy report. Whilst we were able to establish that reconciliation work had been undertaken by the Authority, we were not able to fully substantiate the detailed figures as the reports run subsequently were impacted by further transactions . We recommend for future years that the authority run the reports at the same time to evidence its reconciliation process. As in previous years, the number and nature of the errors found indicates a need to continue with the programme of guidance and training of staff processing benefits claims.	**£0**
❷	**Housing Pooling Return** ■ Our work in relation to the certification of this return identified no issues or amendments to the return.	**£0**

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Summary of certification work outcomes (continued)

Ref	Summary observations	Amendment
③	**HCA compliance reporting** The Homes and Communities Agency (HCA) awards grants to organisations under the National Affordable Housing Programme (NAHP) and the Affordable Homes Programme (AHP). The Compliance Audit framework applies to organisations receiving grant to ensure that the HCA's policies, funding conditions and procedures are followed. The HCA funds a number of different schemes, including shared ownership, empty homes, the homelessness change programme, traveller pitch funding and the care and support specialised housing fund. The HCA chooses a number of authorities and a sample of schemes for each which will be subject to audit each year. The audit involves completion of a detailed checklist for each scheme which is designed to ensure that the HCA's procedural requirements are met. For this Authority, the sample included three properties under the empty homes scheme. The findings of the audit were that most of the criteria required by the HCA were in place with some minor issues to report to the HCA.	**n/a**

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Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fee we charged for carrying out all our work on grants/returns in 2014/15 was £25,575.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return

	2014/15 (£)	2013/14 (£)
Housing Benefit Subsidy claim	19,575	17,240
Pooling of Housing Capital Receipts	3,000	467
HCA compliance reporting	3,000	**n/a**
Total fee	**25,575**	17,240

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2014/15 of £16,000. Our actual fee was £3,575 higher than the indicative fee, and this compares to the 2013/14 fee for this claim of £17,240. However, further work has been requested by the DWP and this has recently been completed. This work will result in an extra fee and all fees are subject to agreement with the Deputy Chief Executive (Resources) and approval by the PSAA.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for the Pooling of Capital Receipts return in 2014/15 are higher than in 2013/14. The reason for the increase was that an extended, mandatory testing programme was introduced in 2014/15 as a requirement for this assurance work being undertaken.

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KPMG

External Audit Plan 2015/2016

Ashfield District Council

February 2016

Headlines

We are pleased to present you with our audit plan for 2015/16. Our responsibilities continue to be organised around providing opinions on your financial stateents and value for money arrangements. We will continue to work hard to ensure that we meet your needs, fulfil our professional requirements. We aim to add value to your operations. We present the headlines from our audit plan below:

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, 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 **£1.2 million.**

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 **£60k**.

Significant risks

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

- Management Override of Controls; and
- Revenue Recognition.

Other areas of audit focus

No other areas of risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified.

See pages 2 to 4 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

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

- Financial resilience in the local and national economy; and
- Future of Ashfield Homes Ltd.

We will update our assessment throughout the year and report any changes through our progress reports and ISA 260**. See pages 5 to 8 for details**

Logistics

Our team is:

- Sophie Jenkins – Director
- Deborah Stokes – Manager
- Rachit Babbar – In-charge

More details are on **page 11.**

Our work will be completed in four phases from January to September 2016 and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 10.**

Our fee for the audit is £56,036 (2014/15 £74,715).This is a reduction of £18,679 (25%) compared to 2014/15. See **page 9.**

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KPMG

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, 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 a opinion on your accounts; and
- *Value for money:* 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 One provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Financial Statements Audit Planning

Control Evaluation

Substantive Procedures

Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page six provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the initial findings of our VFM risk assessment.

Risk Assessment

Identification of significant VFM risks

VFM audit work

Conclude

Reporting

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Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during January to March 2016. This involves the following key aspects:

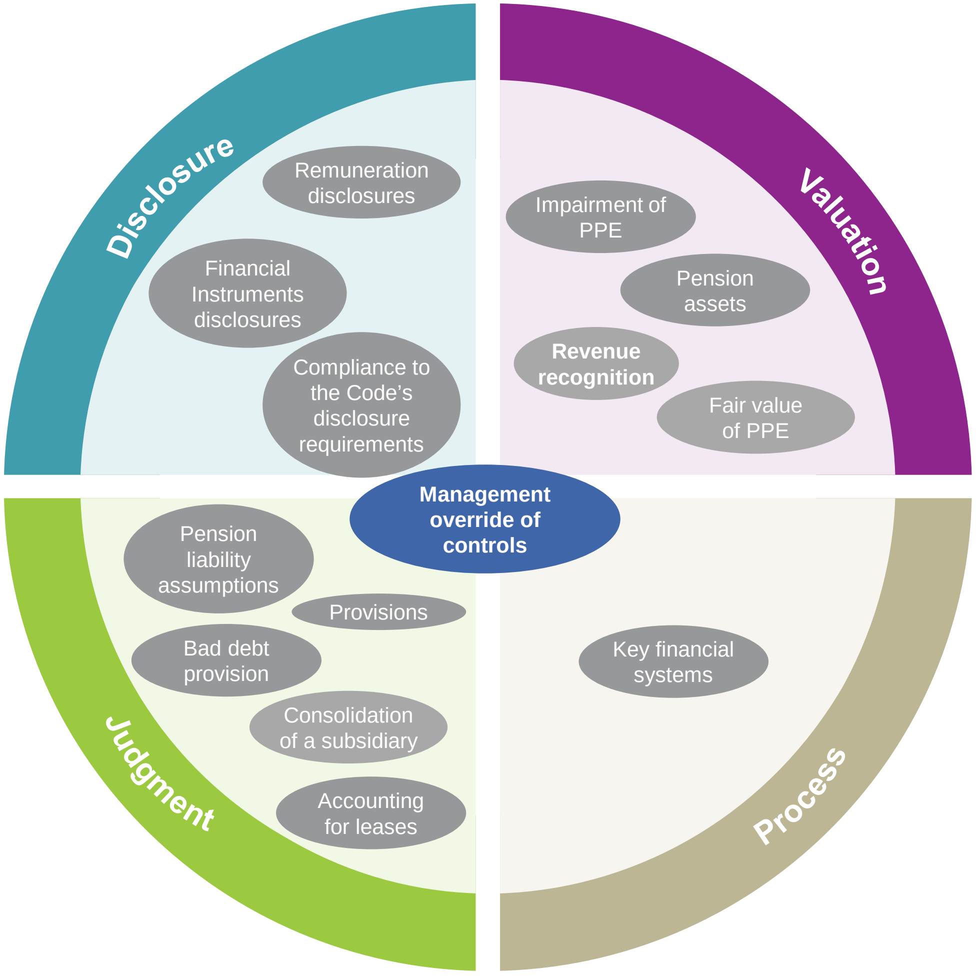
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

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.



Disclosure

Remuneration disclosures

Financial Instruments disclosures

Compliance to the Code's disclosure requirements

Valuation

Impairment of PPE

Pension assets

Revenue recognition

Fair value of PPE

Management override of controls

Judgment

Pension liability assumptions

Provisions

Bad debt provision

Consolidation of a subsidiary

Accounting for leases

Process

Key financial systems

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

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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.

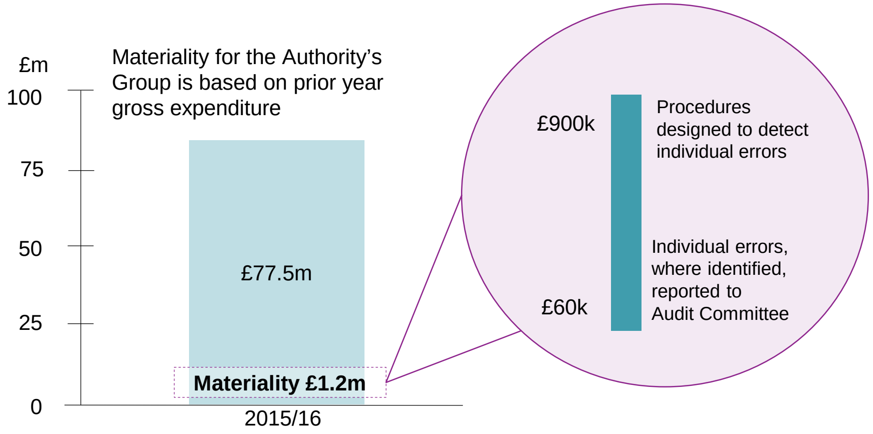
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £1.2 million for the Authority's Group accounts, which equates to 1.5 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's Group, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60k.

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.

Group audit

We will determine whether Ashfield Homes Limited is going to be significant in the context of the group audit.

To support our audit work on the Authority's group accounts, we may seek to place reliance on the work of Ashfield Home Limited's auditors (KPMG audit team) to this subsidiary. We will liaise with them in order to confirm that their program of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our Report to those charged with Governance:

- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where the our access to information may have been restricted; and
- Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

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Value for money arrangements work

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’.

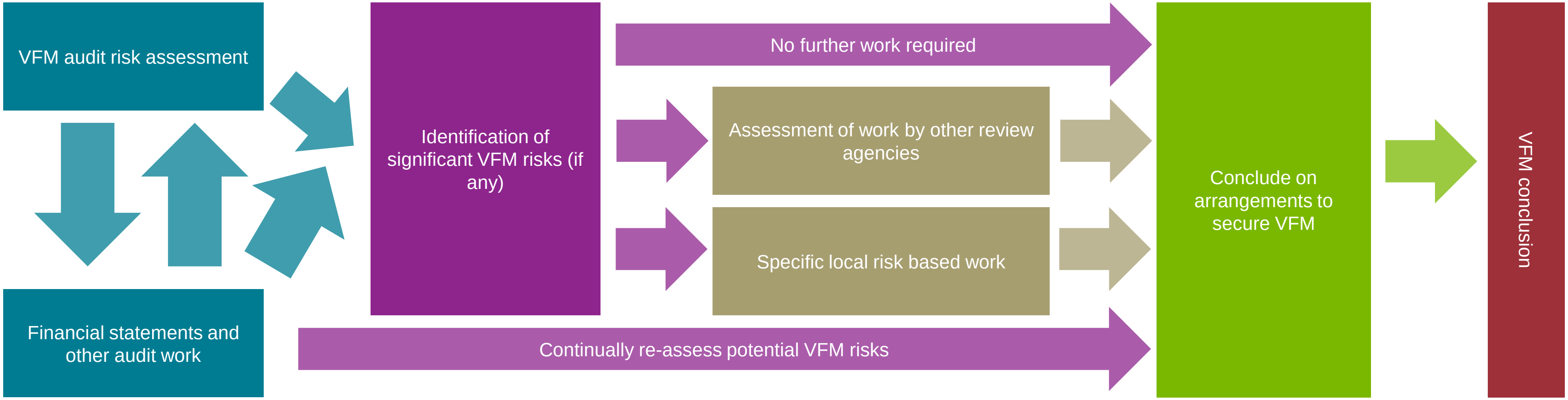
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to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

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.

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**
- **Sustainable resource deployment**
- **Working with partners and third parties**



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Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	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 *Code of Audit Practice.* In doing so we consider: ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	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. 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.
Identification of significant risks	The Code identifies a matter as significant '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.' 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: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ 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.

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Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies **and** **Delivery of local risk based work**	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. 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: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; and ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	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. 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.
Reporting	On the following page, we report the results of our initial risk assessment. We will also update our assessment throughout the year should any issues present themselves and report against these in our ISA 260. 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. 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.

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Value for money arrangements work Planning

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.

Significant Risk 1

- **Financial Resilience in the local and national economy**
- The Government's Autumn Statement and Spending Review confirmed their intention to move to a different funding system over the next few years – with less reliance on Revenue Support Grant and an increasing dependence on business rate income as a major source of income. That, together with likely significant reductions in New Homes Bonus funding from 2017/18 means that the Authority, like most of local government, faces a challenging future. The Authority has been modelling for significant reductions in Government funding in its budget forecasts, nevertheless it will need to ensure that it continues to deliver efficiencies and moves forward its policy for generating income through investments and commercial activities. It is against this backdrop that we will asses the arrangements the Authority has in place to maintain its strong record of meeting efficiency savings against a worsening national picture.
- At a local level, Ashfield District Council is currently reporting an underspend of £557k for 2015/16 as at December 2015. However, the Authority has identified a requirement to achieve cost savings over the next 4 years of approximately £750k each year to achieve a balance of £1.35m in the General Fund Reserve in 2020/21. As part of our VFM work we will review the Authority's financial planning and control arrangements including the Authority's progress in developing and delivering its saving plans as part of its wider arrangements to secure financial resilience in the short and medium term.
- We will rely on our accounts audit work where relevant, underpinned by review of the Authority's budget setting process, financial management processes, and discussions with the senior management team.

Significant Risk 2

- **Future of Ashfield Homes Ltd**
- The Authority set up Ashfield Homes Ltd in April 2002 as an Arms Length Housing Management Organisation to manage and maintain the Authority's housing stock. The agreement runs until 2027 with a break clause in April 2017, when the Authority can give the Company 12 months notice. Following an option appraisal / analysis of a number of options, the Authority has recommended (subject to call-in) to bring Ashfield Homes back in-house. A final decision will be made by the Authority in March 2016.
- We will consider the governance arrangements/steps the Authority took to reach the decision to bring Ashfield Homes back in-house as part of our VFM work and assess the impact on our conclusion on the Authority's arrangements to secure VFM.

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Other matters

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 2015/16 have not yet been confirmed.

Elector 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 Sophie Jenkins, a change from last year to comply with the Engagement Lead rotation rules and bring a fresh perspective. Appendix Two 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 and Standards. Our communication outputs are included in Appendix One.

Independence and Objectivity

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

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 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 2015/16 is £56,036. This is a reduction in audit fee, compared to 2014/2015, of £18,679 (25%).

Our audit fee includes our work on the VFM conclusion and our audit of the Authority’s financial statements.

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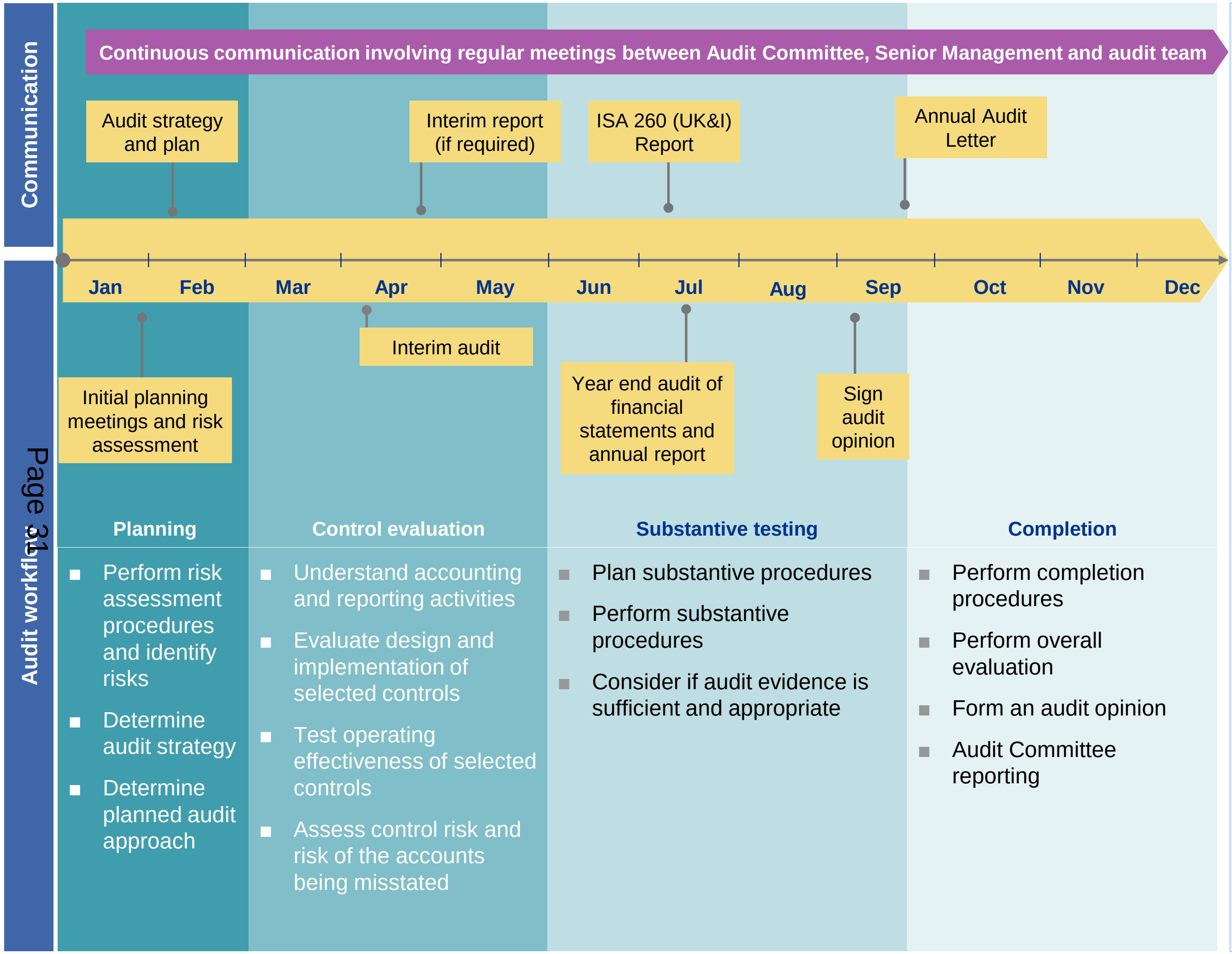
Appendix 1: Key elements of our financial statements audit approach



Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting

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 anticipate using data and analytics in our work around the key areas of non pay expenditure and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

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Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. The team has changed from the last year and will include:

Name	Sophie Jenkins
Position	Director and Engagement lead
	‘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 Standards and Chief Executive.

Sophie Jenkins

Director

Sophie.Jenkins@kpmg.co.uk

+44 7766 725217

Name	Deborah Stokes
Position	Manager
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Director to ensure we add value. I will liaise with the Director of Finance and other Executive Directors.’

Deborah Stokes

Manager

Deborah.Stokes@kpmg.co.uk

+44 7551 135715

Name	Rachit Babbar
Position	In-charge
	‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

Rachit Babbar

In-charge

Rachit.Babbar2@kpmg.co.uk

+44 7468 367330

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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 and Standards.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires 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 January 2016 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 Appointment’s website (www.psaa.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 Sophie Jenkins, 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 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 by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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External audit progress report and technical update

Ashfield District Council

March 2016

Agenda Item 6

External audit progress report and technical update – March 2016

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

The report also highlights key 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.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- 🔴 High impact
- 🟡 Medium impact
- 🟢 Low impact
- ● For info

PROGRESS REPORT

KPMG RESOURCES

TECHNICAL UPDATE

APPENDIX

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Progress report

External audit progress report – March 2016

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

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Certification of claims and returns	Since the last meeting of the Audit and Governance Committee we have completed: • Our audit of your 2014/15 Housing Benefit Subsidy claim which we certified on 27 November 2015; and • Our Certification of Claims and Returns – Annual Report 2014/15. We have included this on the agenda for this committee meeting.
2015/16 Planning	Met with the Chief Executive, Deputy Chief Executive (Resources) and Corporate Finance Manager to;- • Introduce our new audit team; Details of your audit team, their roles and experience are included in Appendix A; • Start our audit planning and risk assessment process for 2015/16, to gain an understanding of the in year financial position and to discuss relevant current and emerging topics such as the future of Ashfield Homes and also issues that may impact on the accounts and Value for Money conclusion; and • Develop our detailed Audit Plan which we have included on this agenda. This will set out the scope of the audit in more detail. Our work over the coming quarter will include: • Commencing our interim audit on 4 April 2016 which will include updating our understanding and performing walkthrough and controls testing on key financial systems; • On-going liaison with finance staff; • Meeting with Senior Officers as part of the audit process to better understand the current and longer term issues that the Council is addressing; and • Liaising with internal audit with a view to maximising audit efficiency (whilst recognising the differences in our roles). At this stage our planning is likely to include particular focus on: • The Authority's arrangements in relation to the Value for Money criteria (we have included a link to the new guidance in our technical update included with this report).

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KPMG resources

KPMG resources

Area	Comments
Governance Arrangements over the Better Care Fund	The £3.8 billion Better Care Fund (BCF) (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 Spending Round, to ensure a transformation in integrated health and social care. The BCF is a single pooled budget to support health and social care services to work more closely together in local areas. The BCF not only brings together NHS and Local Government resources, but also provides a real opportunity to improve services and value for money, protecting and improving social care services by shifting resources from acute services into community and preventative settings. The governance arrangements for the BCF will therefore have to meet the requirements of all partners to achieve economy, efficiency and effectiveness in their use of resources. Each partner will also need to satisfy itself that the pooled budget complies with the requirements of its appropriate code of governance and annual governance reporting guidance. Each partner must also satisfy itself that all other regulatory requirements are met – for example, that discrete funding streams are only spent appropriately at a local level. Partners therefore need to make arrangements to ensure that that is happening. Additionally, there will be a requirement for an audit certificate on this expenditure and arrangements need to be in place to ensure appropriate records are kept to provide sufficient audit assurance. With this in mind, CCG governing bodies and Local Authority Executives are now considering whether governance arrangements and structures are fit for purpose and will ensure the effective management of the BCF and the pace of development and implementation. We are currently carrying out reviews of these governance arrangements and structures using the following Key Lines of Enquiry: ■ Governance arrangements. ■ Engagement and communication. ■ Hosting arrangements. ■ Signed agreement. ■ Performance management. ■ Financial management. For more information, please contact Sophie Jenkins, 07766 725217 - sophie.Jenkins@kpmg.co.uk.

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KPMG resources

Area	Comments
Better Care Fund Support Programme	The Better Care Fund Support Programme aims to help areas to overcome the barriers to the successful implementation of the Better Care Fund plans across England in 2015/16. KPMG is one of the partners that successfully bid to deliver the programme, on behalf of NHS England, alongside the Social Care Institute for Excellence (‘SCIE’), PPL Consulting and the Berkeley Partnership. The focus has been on practical implementation support to deliver better care for the local population. Support has included: ▪ Conferences, webinars and regional clinics – to explore the barriers to change and develop local plans to overcome them; ▪ The Better Care Exchange – an online interactive space for knowledge sharing and collaboration (currently in development); ▪ Virtual clinics – telephone support for BCF leads to discuss individual site issues with integration experts; and ▪ Coaching and support – to enable good practice and insight gathering from within the BCF programme to support Better Care Learning Partners. A number of ‘How to guides’ have been developed on how to: ▪ lead and manage Better Care implementation: www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf ▪ bring budgets together and use them to develop coordinated care provision: www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf ▪ work together across health, care and beyond: www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf The support programme also includes webinars. Further webinars are scheduled, but at present they cover the following topics: ▪ Joint working; ▪ Section 75 Arrangements – Pooled and unpooled budgets; and ▪ Data sharing: More details on the programme, and a link to the webinar recordings, can be found on the SCIE website at www.scie.org.uk/about/partnerships-better-care.asp For more information, please contact Sophie Jenkins, 07766 725217 - sophie.Jenkins@kpmg.co.uk.

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KPMG resources

Area	Comments
KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years	Without a radical programme of house building, average house prices in England could double in just ten years to £446,000 at current prices, according to research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 at current prices by 2034 if current trends continue. The research from KPMG and Shelter also reveals that more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own. The warning comes in a landmark report from KPMG and Shelter outlining how the 2015 government can turn the tide on the nation's housing shortage within a single parliament. With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt. The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England's rollercoaster housing market. It calls on politicians to commit to an integrated range of key measures, including: ■ giving planning authorities the power to create 'New Homes Zones' that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land; ■ unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed; ■ introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building; ■ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and ■ fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need. To read the report, visit www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need–programme-2015.aspx For more information, please contact Sophie Jenkins, 07766 725217 - sophie.Jenkins@kpmg.co.uk.

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KPMG resources

Area	Comments
KPMG publication: Value of Audit – Perspectives for Government	**What does this report address?** This report builds on the *Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed. Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future. **What are the key issues?** ■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ■ The importance of trust and independence of government across different markets. ■ How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making. ■ The importance of technology integration and the issues that need to be addressed for successful implementation ■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

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Technical update

Technical update

Area	Level of impact	Comments	KPMG perspective
New local audit framework	● **Medium**	The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20. DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies. CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established. NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.	***Members may wish to review the CIPFA guidance and begin initial discussions with colleagues about the approach the Authority may wish to adopt.***

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Technical update

Area	Level of impact	Comments	KPMG perspective
Reporting developments – Infrastructure assets	● **Medium**	CIPFA/LASAAC, the group that produce the *Code of Practice for Local Authority Accounting*, have confirmed that transport infrastructure assets owned by local authorities will be required to be included in the accounts from 2016/17. This would require prior period adjustments for 2015/16, including the opening position at 1 April 2015. The changes require local authorities to recognise the value of all transport infrastructure assets using the depreciated replacement cost method, i.e. the cost required to replace the asset with a new replacement depreciated over the life of the existing asset. Transport infrastructure assets include: ▪ roads, bridges, roundabouts and traffic calming measures; ▪ footways, footpaths and cycle tracks; ▪ tunnels and underpasses; and ▪ water supplies and drainage systems, as they support the assets identified above. Even non-highway authorities will be affected to the extent that footways etc are material to their accounts. Railway assets are not currently included in the proposals, although it is possible that these may be included in subsequent periods. CIPFA have issued a *Code of Practice on Transport Infrastructure Assets* which contains the requirements to be included in the Local Authority Code. This is available to purchase from the CIPFA website. Local authorities should have developed a project plan to identify all of the relevant transport infrastructure they own and a timetable for valuing these. CIPFA expects authorities to have undertaken the 1 April 2015 valuations by 31 December 2015. The Whole of Government Accounts submission includes unaudited data on transport infrastructure assets. 2013/14 data indicates assets of over £400 billion will be accounted for on local authority balance sheets. However, only 93% of authorities provided this information, and of these less than 70% used actual inventory data to complete the return. This indicates that the sector faces a significant challenge in accurately identifying the assets it owns and will have to account for.	***The Committee may wish to enquire of officers whether a project plan has been developed to address the requirements and review progress against this on a regular basis.***

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Technical update

Area	Level of Impact	Comments	KPMG perspective
The Local Government Association's 2015 Spending Review submission	● **Medium**	In June 2015, the Local Government Association (LGA) set out proposals for the Government to consider as part of the Spending Review, aimed at streamlining public services, growth generating investment and social care and health – all while saving the public purse almost £2 billion a year by the end of the Parliament. The submission focusses on five core issues originally highlighted in *A Shared Commitment* (www.local.gov.uk/documents/10180/6869714/L15-252+Spending+Review_WEB_new.pdf/3101e509-1e22-4c26-91ac-8fd8a953aba5), published in early 2015. The LGA hopes that local government can work with central government to balance the nation's books while improving public services and the local economic environment by delivering new, transformed and high-quality local services while at the same time reducing costs to the public sector. The LGA believes the Spending Review should: ■ enable wider integration of social care and health services to deliver savings and improve outcomes This requires the annual £700 million funding gap in social care services to be closed and a transformation fund worth £2 billion in each year of the Spending Review period be created to allow new ways of working to become commonplace. The Spending Review should also implement a single place-based budget for delivering all local services through a Local Public Services Fund as part of at least five devolution deals; ■ promote growth and productivity by accepting the case for further devolution of powers and funding that stretches beyond 25 November. The LGA is calling for devolution of, or local influence over, more than £60 billion of growth, skills and infrastructure funding over the Spending Review period, including: – the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21 – a central-local partnership to deliver effective and targeted skills and employment initiatives – unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament. ■ help councils adequately resource and deliver high quality public services by transforming the business rate mechanism and providing a four year local government finance settlement; and ■ help councils focus on driving efficiency and value for money through an assessment of the impact of unfunded cost burdens that core council budgets are going to face over the Spending Review period.	***The Committee may wish to seek assurances that the impact for their Authority is understood.***

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Technical update

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Narrative statements	● Low	Authorities will need to be aware that the *Accounts and Audit Regulations 2015* require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states: *Narrative statements* 1) *A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.* 2) *A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.* Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge. The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's *Code of Practice on Local Authority Accounting* (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.	***The Committee may wish to seek assurances that their authorities have arrangements in place to meet the new requirements***
Accounts and Audit Regulations 2015 – Exercise of public rights	● Low	Authorities will be aware that the Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015/16 onwards. Paragraph 9(1) of the Regulations requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.	***The Committee may wish to seek assurances that the necessary arrangements are in in place for their Authority.***

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Area	Level of Impact	Comments	KPMG perspective
Consultation on 2016/17 audit work programme and scales of fees	● **Low**	Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/17 proposed work programme and scales of fees. The consultation sets out the work that auditors will undertake at principal audited bodies for 2016/17, with the associated scales of fees. The consultation documents, and list of individual proposed scale fees, are available on the PSAA website at www.psaa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/ There are no planned changes to the overall work programme for 2016/17. It is proposed that scale fees are set at the same level as the scale fees applicable for 2015/16, set by the Audit Commission before it closed in March 2015. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13. Following completion of the Audit Commission's 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established shortly. The work that auditors will carry out on the 2016/17 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office. The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.	***The Committee may wish to seek assurances on how their Authority have responded to the consultation.***

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Area	Level of Impact	Comments	KPMG perspective
NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals	● Low	Wave 1 City Deals encouraged cities to develop capacity to manage devolved funding and increased responsibility. The report finds it is too early to tell whether the deals will have any overall impact on growth, and that the government and the cities could have worked together in a more structured way to agree a consistent approach to evaluating the deals' impact. There have been early impacts from some of the individual programmes agreed in the deals. It has, however, taken longer for cities and departments to implement some of the programmes that required more innovative funding or assurance mechanisms. The government has set out its ambition to continue devolving responsibility for local growth to cities and other local places. The report highlights that both the government and local places can learn from the experience of Wave 1 City Deals to manage devolution to local places effectively. The report is available on the NAO website www.nao.org.uk/report/devolving-responsibilities-to-cities-in-england-wave-1-city-deals/	***The Committee may wish to seek assurances how their Authority fit into the emerging City Deals.***

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Technical update

Area	Level of Impact	Comments
Greater Manchester Combined Authority	● **For Information**	Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. 'Devo Manc" encompasses a broad range of proposals to address the challenges and opportunities GM is facing: **Health and Social Care** Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care. As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested. **GM proposals** In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region: ■ Investment in transport infrastructure ■ New funding mechanisms to support site remediation and infrastructure provision ■ Making better use of Social Housing Assets to support growth ■ Locally led low carbon ■ A scaled-up GM Reform Investment Fund ■ Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance ■ Fundamental review of the way services to children are delivered ■ Research and innovation funding ■ Investment in integrated business support to drive growth and productivity ■ Reform of the New Homes Bonus ■ Further employment and skills reform ■ GM approach to data sharing across public agencies ■ Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.

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Technical update

Area	Level of Impact	Comments
Care Act first-phase reforms – local experience of implementation	● **For Information**	This report has been published by the National Audit Office and complements its earlier report on central government's approach to the Care Act first-phase reforms. This further report provides examples from local case study areas which show how different authorities are addressing risks arising from uncertainty in demand from carers and self-funders. The report was published on 3 August and is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/
Proposed changes to business rates and core grant	● **For Information**	The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall. The Chancellor set out the landmark changes in a speech to the Conservative party conference in Manchester, saying it was time to face up to the fact that "the way this country is run is broken". Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved, he said The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate. The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

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Technical update

Area	Level of Impact	Comments
Public Sector Audit Appointments Ltd (PSAA) – VFM profiles update	● **For Information**	Public Sector Audit Appointments Ltd (PSAA) maintain the Value for Money profiles tool (VFM profiles) initially developed by the Audit Commission. The profiles were updated on 1 October 2015. The VFM profiles planned budget section now contains the 2015/16 data sourced from the Department for Communities and Local Government – General Fund Revenue Account Budget (RA). The values are adjusted with gross domestic product (GDP) deflators from the HM Treasury's publication in June 2015. The profiles can be accessed through the PSAA's homepage at http://www.psaa.co.uk/ Other sections of the VFM profiles have also been updated with the latest data values for the following data sources: ■ Inequality gap (2012/13) ■ Fuel poverty (2013) ■ Climate change (2013) ■ Alcohol related admissions (2013/14) ■ Mid-year population estimates (2014) ■ Chlamydia testing (2014) ■ Participation in education or work-based learning (2014) ■ Housing benefit speed of processing (2014/15) ■ CT and NNDR collection rates (2014/15) ■ NHS health checks (2014/15) ■ Planning applications (Quarter 4 2014/15) ■ Delayed transfers of care (Quarter 1 2015) ■ Under 5 provision (2015)

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Appendix

Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016	Complete
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	May 2016	Not yet started
Substantive procedures			
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 Council's value for money arrangements.	September 2016	Not yet started
Completion			
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 2016	Not yet started
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	Not yet started
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	Not yet started
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	Not yet started

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Appendix 2 – Your new audit team

0121 232 3221

Sophie.Jenkins@kpmg.co.uk

Name	Sophie Jenkins
Position	Audit Director and Engagement lead
Role	*“My role is to ensure you receive a quality audit opinion and service excellence from KPMG. I will lead the external audit service and be personally responsible for making sure you get the best service possible – on time and within budget and keeping you informed of best practice in Local Government and beyond. I’ll be your first point of contact, leading all of our key meetings with you and keeping in regular contact..”*
Qualifications	ACA, BA (Hons) Politics, Philosophy and Economics
Experience	Sophie is a Director in the Midlands Public Sector Audit Department. She joined KPMG in the public sector department as a graduate in 2004. • Sophie leads on a number of audit engagements including Ashfield DC and Mansfield DC. In her 12 years at KPMG, Sophie has led or managed a number of external and internal audit contracts for a range of clients in the Midlands including Heart of England NHS FT, Oxford University Hospitals NHS Trust, Birmingham Children's Hospital NHSFT and the Robert Jones and Agnes Hunt NHSFT. • Sophie supplements this ongoing work with assurance and advisory work. In particular, Sophie has led and carried out a significant number of governance related reviews through her internal audit work and also as an independent advisor to aspirant foundation trusts. • Sophie has significant experience in supporting organisations in developing new commercial ventures. Most recently, Sophie has supported a number of NHS Trusts and Foundation Trusts in creating and planning for subsidiary companies delivering outpatient pharmacy services. This support has included project managing, and facilitating through workshops, the development of business cases, business plans including financial models for the new entities and providing challenge and support to the client team throughout the process.

07551135715

deborah.stokes@kpmg.co.uk

Name	Debbie Stokes
Position	Audit manager
Role	*“‘I will be the day to day contact for your finance team and will work closely with Andy to ensure that our audit runs smoothly with minimal disruption to your staff. I will maintain regular contact with the finance team during the course of the year to ensure any technical issues are resolved as they arise. During our on-site audit I will liaise with our audit team to ensure that any audit issues are identified early and brought to your attention”*
Qualifications	BA (Hons), FCCA, MBA
Experience	■ Debbie is a Manager based within our Public Sector team in the East Midlands. Debbie has an extensive range of audit experience having joined KPMG’s public sector over twelve years ago. Her local government portfolio covers external audit clients, including Boston Borough Council and North Kesteven District Council.

07468367330

rachit,.babbar2@kpmg.co.uk

Name	Rachit Babbar
Position	Assistant audit manager
Role	*‘I will work closely with Debbie and our core external audit team to deliver a high-quality audit. I will lead the on-site team during our audit visits and regularly liaise with members of the finance team. I will also support Debbie with the delivery of the Benefits Audit work.*
Qualifications	Pursuing ACA
Experience	■ Rachit joined KPMG in June 2012 and is based in our Birmingham office. He has worked on a number of Local Government clients including Nottinghamshire County Council, Derbyshire Dales District Council and Amber Valley District Council. He has also been involved in the benefits testing work and pensions audit.

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Ashfield District Council – Audit Plan 2016-17

Audit Committee: 21st March 2016

Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

Contents Page

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CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Introduction

Reasons for an Audit Plan

The Public Sector Internal Audit Standards (PSIAS) state that annually the Chief Audit Executive is responsible for developing a risk-based plan.

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the organisation's overall control environment, comprising the systems of governance, risk management, and internal control and to highlight control weaknesses together with recommendations for improvement. The annual Audit Plan sets out proposals on how this will be achieved in the year ahead.

The Audit Plan must incorporate sufficient work to enable the Chief Audit Executive to give an opinion on the adequacy of the organisation's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2016/17 will inform the Chief Audit Executive's opinion on the internal control environment that exists within the organisation. The Chief Audit Executive reports his overall opinion to the organisations Board (i.e. the body carrying out the role of the organisation's Audit Committee) on an annual basis.

This report provides the Board with an opportunity to challenge and approve the planned work of the Internal Audit service. As well as satisfying themselves that the methodology and arrangements for preparing the annual Audit Plan are robust.

Approach to Audit Planning

The Audit Manager is responsible for delivering the audit service. To ensure that this can be achieved there are appropriate arrangements for audit planning and ensuring that the plan is adequately resourced with the necessary level of skilled and experienced staff.

The Chief Audit Executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the Chief Audit Executive uses his own judgment of risks after consideration of input from senior management and the board. The Chief Audit Executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

As such, the service will be delivered on the principle of a risk based audit plan compiled by the Audit Manager in consultation with the organisation's Management, using a risk assessment model which allocates a risk factor of high, medium or low to all the areas for audit review to be undertaken.

We will also consider the organisation's risk management arrangements to inform our risk assessment. We will endeavour to meet with relevant managers to further understand the risk areas where internal audit assurance will be appropriate. The audit plan sets out the number of days required for Internal Audit to adequately review the areas involved and indicates the priority level for each planned audit assignment. The overriding objective of this approach is to ensure that the Chief Audit Executive is able to present an annual opinion on the organisation's overall control environment by directing adequate resources based on the relative risks of operations, resources and services involved.

The audit plan balances the following requirements:

- The need to ensure the plan is completed in line with the agreed performance targets.
- The need to ensure the core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control.
- The need to appropriately review both strategic risk and operational risk areas.
- The need to have a sufficient contingency element to deal with unplanned issues and investigations that arise during the year.
- To enable positive, timely input to assist corporate and service developments.
- To meet the requirements of the managed audit arrangements with the external auditors to ensure that they can comply with the International Auditing Standard, including system documentation and evaluation for all business critical systems and validation of performance indicator outturns.

Progress in completing the audit plan, as well as achieving its performance targets will be submitted to the Board as part of regular Internal Audit Progress reports.

Aims of Audit Coverage

The objectives of Internal Audit's planned coverage are as follows:

- Provide an assurance on the organisation's internal control system, and hence there is need to audit areas of financial and non-financial risk as this will encompass some of the key governance systems.
- Audit the main financial systems and other systems related to possible material mis-statements, regardless of comparative risk.
- Deliver risk based assurance on those controls that manage significant risks.
- Fully conforms to the Public Sector Internal Audit Standards (PSIAS) which came into force on 1st April 2013.
- Better integrate the outcomes and other information gathered as part, of the internal audit process, with the organisation's risk management process.
- Maintain on-going effective relationships with the External Auditors and deliver complementary plans of work so as to deliver an efficient audit service collectively.
- Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within Internal Audit.
- Improve the efficiency and effectiveness of operations of the service.
- Promote good corporate governance and control practices and contribute to a good governance culture.
- Work in a positive manner alongside clients, supporting them in the effective management of risk and service delivery.
- Contribute to embedding risk management throughout the organisation's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within the organisation.

Content of the Audit Plan

Audit Resources

It is anticipated that the Central Midlands Audit Partnership will provide the organisation with a sustainable service, with comprehensive coverage and an enhanced quality of service. It is envisaged that as the Partnership grows, greater efficiencies may be achieved which could result in further cost reductions to Partner organisations over time.

The Partnership uses a modern risk-based approach to internal audit, which focuses audit reviews on the key risks faced by the organisation. We will utilise our bespoke database systems and automated working papers package that greatly assist with the conduct of audits and the audit management process. These systems cover audit working papers and reports, job control and progress tracking, time recording, recommendation tracking and automated follow-ups, together with performance monitoring and management reporting.

This approach provides a more efficient ways of undertaking, documenting and managing the audit services. This will provide greater efficiencies in the delivery of the required assurances to management, as more audit work will be achieved within a given resource allocation than would have been the case using outdated working practices.

Resilience

The greater resilience brought about by Partnership growth, should ensure the planned audit coverage of each Partner organisation does not experience reductions or additional costs through long-term absences or vacancies, etc. Each organisation will continue to benefit from the specialist audit skills and experience already contained within the Partnership (e.g. computer auditing) which is typically only available at a premium to other organisations.

The general management and administrative overheads associated with the internal audit service will not be detailed in this report as they relate to the Partnership as a whole and are typically not directly attributable to any single organisation. This report will only detail the resource allocations to 'productive' audit work which can be attributed to this organisation.

Plan Contingencies

The Audit Plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues deemed as a high risk, the need to divert audit resources to investigation work and changes in staffing resources available for audit work.

To ensure changes to the Plan are minimised, within the Plan there are a number of days set aside as "contingencies". These are split as follows:

- Emerging Issues - Not all audit work can be planned one year in advance. Accordingly, a contingency of days has been built into the Plan to address issues that occur during the year which Audit need to be aware of and assess the risk implications for the organisation.
- Advice - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout the organisation. This consultancy work is a very important service and requests for Audit input are considered to be a good measure of the quality of the Audit service and of the satisfaction of our customers.
- Investigations - Internal Audit may be involved in the investigation of suspected internal fraud, theft or major irregularity (where there is some form of alleged financial irregularity, which may have resulted in financial loss to the organisation). Under the Code of Practice this is deemed a non-assurance function, and therefore such work will only be undertaken if the availability of resources allows it. The level of investigation work cannot easily be predicted, but we would normally set the contingency of days to approx. 5% of days available.
- Follow-up Audits - Internal Audit is committed towards ensuring that control improvements are achieved and all agreed actions are acted upon. To this end, audit time has been allocated to develop our system for ensuring that agreed actions to audit recommendations are implemented. We have developed a recommendation tracking database, which allows us to monitor, follow-up and report upon the

status of all management's actions in respect of agreed audit recommendations.

- Brought Forward Jobs - A number of incomplete audits from the 2015/16 Plan will need to be concluded in 2016/17. It has been assumed that brought forward and carry forward figures will remain fairly consistent from year to year. As such, related days will no longer be included in the Plan.

Types of Audit Work

Key Financial Systems Audit - Much of internal audit's assurance work comes from the review of the risks and controls associated with the organisation's financial systems. External Audit will review the work on the key financial systems to assist them when determining their opinion on organisation's annual accounts. The Plan covers the key financial systems including the Main Accounting Systems, Treasury Management, Fixed Assets, Revenue Systems, Creditors, Debtors and, Payroll. The consequences of these system processes going wrong could lead to service failure and wasted resources.

Systems / Risk Based Audits - The auditor's prime role is to review the internal control system and report upon the adequacy of controls. An organisation's overall internal control system is the product of all of those systems and processes that the organisation has created to deliver its business objectives, both financial and non-financial. It follows that one of the main ways that auditors will form a view on the overall control system is by carrying out reviews of the component systems and processes. These are commonly known as systems-based audits. They enable auditors to:

- Assess how internal controls are operating in a system to manage risk, thereby forming a view on whether reliance can be placed upon the system.
- Provide management with assurances that systems are adequately meeting the purposes for which they were designed.
- Provide constructive and practical recommendations to strengthen systems and address identified risks.
- Use findings to feed into an overall opinion on the control framework.
- Provide evidence for external audit and other review agencies.

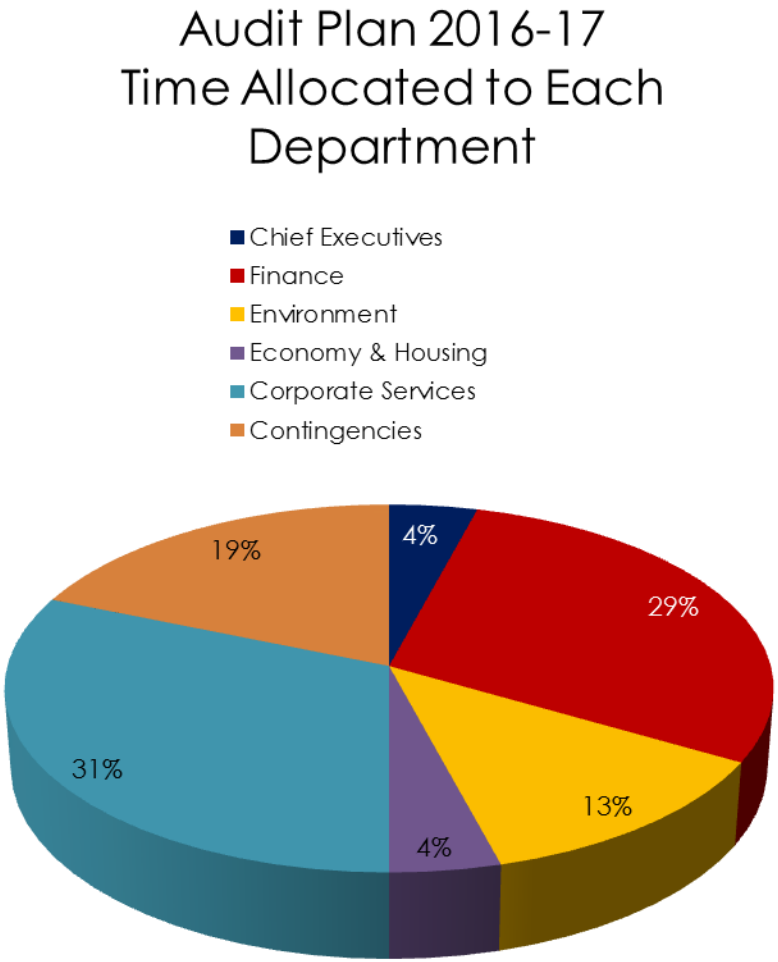
IT Audit – Typically our IT auditing coverage focuses on the following:

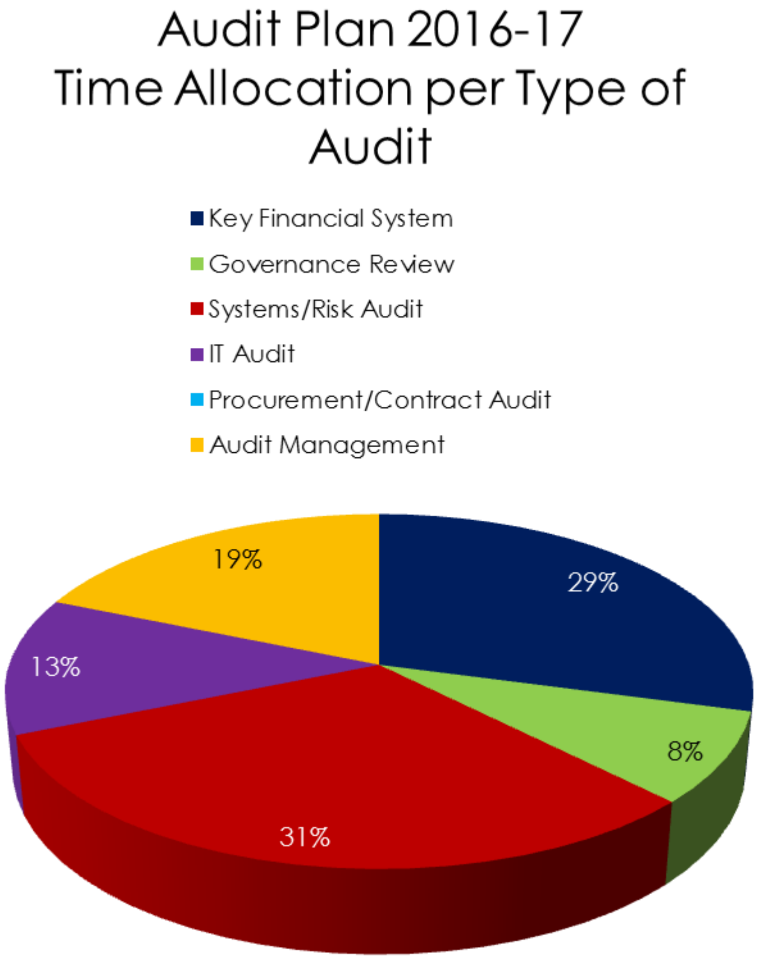
- Infrastructure - Infrastructure audits cover perimeter defences, authentication, management and monitoring, and devices. Broken down further, IT Infrastructure Audits typically address Anti-Virus, Intrusion Detection Systems, Firewalls, Routers, Switches, Operating Systems, Directory Services (Active Directory), Group Policy, Virtual Private Networks, Database Platforms, Web Server Platforms, Application Server Platforms, Network Management, Network Design, Networking Hardware, Centralised Storage, Virtualization, Telecommunications and IT Telephony, Remote Access Solutions (Citrix) amongst others. Infrastructure audits help provide assurance that the Company's private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure the organisation has the necessary monitoring and incident analysis to maintain and analyse the Network.
- Applications: Application audits cover thin and fat client applications, and both internal (Intranet) or external (Web) applications. Applications audits typically focus on CIAA (confidentiality, integrity, availability and accountability risks). This can be broken down to look at application deployment and use, to ensure the applications and hosting servers are protected, and design and configuration ensure attackers cannot exploit vulnerabilities to gain unauthorised access to sensitive corporate data.

Governance Reviews - The governance framework comprises the systems and processes, and culture and values, by which the organisation is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has led to the delivery of appropriate, cost-effective services. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. Internal Audit undertakes reviews of key aspects of the organisation's governance framework by looking at corporate systems such as Risk Management, Health & Safety, Data Quality, Anti –Fraud etc.

Procurement/Contract Audit - Procurement involves the process of acquisition from such third parties, and spans the whole life cycle from the initial concept (determining the need), through buying and delivery, to the end of a service contract. The audit approach to procurement should primarily concern the organisation's corporate procurement strategy and associated management structures and processes, including contract procedure rules and detailed procurement guidance. Internal Audit should focus resources on those areas perceived on an annual basis to be of highest risk. To identify such areas, it will be necessary to have information regarding the current spending on procurement by each area within the authority, together with its plans for the future (including any major service contracts that are due for re-letting).

Overview Charts of Planned Coverage





Ashfield District Council – Audit Plan 2016-17

Detailed Audit Plan Proposal

Plan 2013-14	Plan 2014-15	Plan 2015-16	Ashfield District Council - Audit Plan 2016-17	Risk Score	Risk Rating	Plan Days	Type of Audit
			Chief Executives				
			Governance				
✓		✓	Information Governance (DP, FoI & Records Management)	50	Medium		
			Partnership Governance	49	Medium		
			Ethics/Declarations of Interest	42	Medium		
			Chief Exec's Office				
✓			Electoral Services	47	Medium		
			Communications	42	Medium		
			Corporate Improvement/Transformation	51	Medium		
✓			Data Quality & Performance Management	53	Medium	10	*Governance Review*
			Chief Executives Total Days			**10**	
			Resources				
			Finance				
✓	✓	✓	Main Accounting Systems (incl. Budgetary Control, Reconciliations, MTFP)	56	High	15	*Key Financial System*
✓	✓		Capital Accounting	51	Medium		
			Taxation	50	Medium		
✓			Fixed Assets	48	Medium		
✓	✓	✓	Banking Services	53	Medium		
✓	✓	✓	Treasury Management	58	High	10	*Key Financial System*
✓	✓	✓	Creditors	56	High	10	*Key Financial System*
✓	✓	✓	Procurement (incl. Contracts Register)	57	High		
		✓	Risk Management	56	High		
			Insurance	46	Medium		
	✓	✓	Anti-Fraud & Corruption (incl. NFI, Data Matching, Anti Fraud Policies)	51	Medium		
✓	✓		Housing Benefit & Council Tax Support	63	High	15	*Key Financial System*
✓	✓	✓	Council Tax	59	High	10	*Key Financial System*
✓	✓	✓	NDR	61	High	10	*Key Financial System*
✓	✓		Debtors	44	Medium		
✓	✓	✓	Customer Services/Cashiers/E-Payments	44	Medium		

Ashfield District Council – Audit Plan 2016-17

			Finance Total Days			**70**	
			Environment				
	✓		Refuse Collection / Recycling / Trade Waste	53	**Medium**	10	*Systems/Risk Audit*
			Street/Other Cleansing	42	**Medium**		
			Grounds Maintenance	43	**Medium**		
✓			Cemeteries	43	**Medium**		
	✓		Fleet Management	47	**Medium**		
	✓		Stock & Stores / Canteen	40	**Medium**		
✓			Health & Safety	51	**Medium**		
			Food Safety	48	**Medium**		
	✓		Licensing	45	**Medium**		
✓			Pest Control / Dog Warden	39	**Medium**		
			Community Protection	34	**Low**		
			Safeguarding	54	**Medium**	10	*Governance Review*
			New Cross Initiative	55	**High**	10	*Systems/Risk Audit*
			Environment Total Days			**30**	
			Economy & Housing				
			Development Control	52	**Medium**		
			Planning & Building Control Fees	43	**Medium**		
			Section 106	46	**Medium**		
	✓		Land Charges	38	**Medium**		
			Leisure Centres	53	**Medium**	10	*Systems/Risk Audit*
			Community Initiatives / Town Centre Management	35	**Medium**		
		✓	Markets	51	**Medium**		
	✓		Economic Regeneration	48	**Medium**		
			Strategic Housing	51	**Medium**		
			Homelessness	51	**Medium**		
		✓	Private Sector Housing	49	**Medium**		
			Economy & Housing Total Days			**10**	
			Corporate Services				
	✓		Business Continuity & Emergency Planning	53	**Medium**	10	*Systems/Risk Audit*
	✓		Improvement Grants (Energy, Disabled Facilities etc.)	48	**Medium**		
			PCI Compliance	53	**Medium**	10	*Systems/Risk Audit*

✓		✓	IT Applications	65	High	15	*IT Audit*
✓		✓	ICT Infrastructure	70	High	15	*IT Audit*
			People Management (Policies, Recruitment, Equalities, Training, Disciplinary etc.)	50	Medium		
✓			Payroll	64	High	15	*Systems/Risk Audit*
			Ethical Processes & Payments (Members & Officers)	57	High	10	*Systems/Risk Audit*
✓			Property Management (incl. Estate Management,)	44	Medium		
✓			Right to Buy / Land Sales	40	Medium		
			Asset Management (incl. Building Maintenance)	48	Medium		
	✓		Car Parks	48	Medium		
			Caretaking / Community Centres	47	Medium		
					Corporate Services Total Days	**75**	
			Contingencies				
			Other Audit Work				
			Partnership Re-allocation			7	*Audit Management*
			Investigations				
			Audit Committee			5	*Audit Management*
			Audit Management etc.			10	*Audit Management*
			Advice & Emerging Issues			10	*Audit Management*
			Follow-ups			13	*Audit Management*
					Contingencies Total Days	**45**	
					Ashfield District Council Total Days	**240**	

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REPORT TO:	**AUDIT COMMITTEE**	**DATE:**	**21st March 2016**
HEADING:	**INTERNAL AUDIT PROGRESS REPORT (1 APRIL 2015 TO 3 MARCH 2016)**		
PORTFOLIO HOLDER:	**CORPORATE SERVICES**		
KEY DECISION:	**NO**	**SUBJECT TO CALL-IN:**	**NO**

1. PURPOSE OF REPORT

To report to the Audit Committee details of work undertaken by Internal Audit since the last report presented to Committee in December 2015.

To provide a narrative report of audits undertaken since the last Committee where the system reviewed has been categorised as having “Limited Assurance” or worse.

To provide a summary, by service area and category, of all previous internal audit recommendations not implemented in accordance with the agreed timescale.

To provide details of high priority recommendations not implemented in accordance with the agreed timescale.

2. RECOMMENDATION(S)

That the report be noted by Members

3. REASONS FOR RECOMMENDATION(S)

The report does not require any Executive decisions regarding recommendations

4. ALTERNATIVE OPTIONS CONSIDERED (with reasons why not adopted)

The report has no alternative options

5. BACKGROUND

INTERNAL AUDIT PROGRESS REPORT (1ST APRIL 2015 TO 3RD MARCH 2016)

1. WORK UNDERTAKEN BY INTERNAL AUDIT

1.1 During the period, December 2015 to March 2016, four audit reports have been completed: Creditors – Use of Purchase Orders, Special Investigation 1, Special Investigation 2 and Absence Management. An overall summary of the reports together with an analysis of the assessment of assurance rating is shown at **Appendix A**. The appendix also includes details of the number of recommendations issued and analysed by priority.

1.2 Of the four reports finalised, one concluded that “Limited Assurance” could be taken from the framework of controls in place and operating to manage key risks. This is a low level of assurance. A summary of each of these is provided in the following sections.

Absence Management

1.3 The audit was undertaken to seek assurance that Management are following the prescribed managing absence process and are providing HR timely information.
Testing has identified the following areas for improvement:

- The first stage of the Policy should take 6 months from the date the employee hit the trigger. Review of the trigger spreadsheet has highlighted that in most cases the process is taking longer than, the 6 months. This is due to delays in the meeting process.
- Most Managers reviewed are keeping their own records in some way, however these are not always accurate as two Managers had not realised action needs to be undertaken. Two Managers have stated that they don’t always refer to the HR trigger report, however this has led to triggers being missed.
- There is reluctance to complete the process where Managers either perceive sickness level not to be an issue, where sickness reasons are sensitive or when employees have returned to work following a Long Term Sickness, and the employee has already gone through a process just to get them back to work.
- The Policy requires the Manager to set targets for the employee to improve their attendance however an interviewed Manager has expressed some concern over the fact that there is no guidance on what improvement target to make.

2. RECOMMENDATIONS NOT IMPLEMENTED

2.1 The purpose of Internal Audit work is to review systems and procedures and to provide assurance on the effectiveness of the Council’s Governance Framework. This work involves identifying weaknesses that require addressing and agreeing actions and realistic implementation dates with service managers.

Table 1 below provides a summary of all audit recommendations made to the 3rd March 2016 and agreed by management, but which currently remain outstanding.

Table 1 –Recommendations outstanding and overdue – by Priority

	Previous Years Audits	2015/16 Audits	Recommendations outstanding as at ad 10th September 2015
High Priority	2	0	2
Medium Priority	3	3	6

Low Priority	0	1	1
Total	**5**	**4**	**9**

2.2 Table 2 below provides an analysis of the service areas to which the outstanding recommendations relate.

Table 2 –Recommendations outstanding and overdue – by Service Area

Service Area	**High**	**Medium**	**Low**	**Total**
Chief Executive	0	0	0	0
Deputy Chief Executive (Resources)	2	3	1	6
Assistant Chief Executive Governance	0	2	0	2
Service Director – Corporate Services	0	1	0	1
Service Director – Economy	0	0	0	0
Service Director – Environment	0	0	0	0
Total	**2**	**6**	**1**	**9**

2.3 The Audit Committee held in June 2011 requested details of all individual high level outstanding recommendations to be presented at all future meetings of the Audit Committee. There are currently two high priority recommendations outstanding and these are detailed at **Appendix B**.

6. IMPLICATIONS

Corporate Plan:

Ensuring our people, structures, systems, processes and practices are ‘fit for purpose’ and remove barriers to improvement and growth.

Legal:

There are no specific legal issues in the report

Financial:

Finance comments are contained within the report.

Health and Well-Being / Environmental Management and Sustainability:

No health and well-being issues and no environmental management and sustainability issues.

Human Resources:

No Human Resources issues

Diversity/Equality:

Any Equality implications have been incorporated into the main statement within this report

Community Safety:

No Community Safety issues
Other Implications:

N/A

BACKGROUND PAPERS

None

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David Greenwood
DEPUTY CHIEF EXECUTIVE (RESOURCES)

PLANNED ASSIGNMENTS COMPLETED 2015/16

The definitions for levels of assurance – system status is the audit assessment of the extent to which controls are being consistently applied:

Substantial - There is a robust framework of controls making it likely that service objectives will be delivered.

Sufficient - The control framework includes key controls that promote the delivery of service objectives.

Limited - There is a risk that objectives will not be achieved due to absence of key internal controls.

Nil - There is an absence of basic controls which results in inability to deliver service objectives.

The definition of the Scope for Improvement and the priority of the recommendations is as follows:

High - High priority recommendations will need implementing immediately. If a recommendation is not implemented within 3 months of the agreed date the implications of non implementation will be reported to the Audit Committee.

Medium -. Medium priority recommendations will need implementing within 3 months. If a recommendation is not implemented within 6 months of the agreed date the implications of non implementation will be reported to the Audit Committee.

Low - Low priority recommendations will need implementing within 6 months. If a recommendation is not implemented within 9 months of the agreed date the implications of non implementation will be reported to the Audit Committee.

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Assignment		Level of Assurance							Recommendations		
		System Status				Scope for Improvement					
Ref	Title	Substantial	Sufficient	Limited	Nil	High	Medium	Low	High	Medium	Low
15/16 - 01	National Fraud Initiative	✓						✓	-	-	-
15/16 - 02	General Arrangements for Dealing with Fraud			✓		✓			2	9	4
15/16 - 03	Market Asbestos			✓		✓			1	6	4
15/16 - 04	Market Operations			✓		✓			4		
15/16 - 05	Active Ashfield				✓	✓			2		
15/16 - 06	IT Governance			✓		✓			3	3	
15/16 - 07	Application Management			✓		✓			2	5	
15/16 - 08	Data Sharing			✓			✓		1		
15/16 - 09	Data Management		✓			✓			4	1	
15/16 -10	Absence Management			✓		✓				3	4
15/16-11	Private Sector Housing enforcement - HMO		✓				✓		1		
15/16 -12	Access Controls			✓		✓			3	7	1
15/16-13	Upgrade and Patch Management			✓		✓			3	6	1

PLANNED ASSIGNMENTS COMPLETED 2015/16

Assignment		Level of Assurance							Recommendations		
		System Status				Scope for Improvement					
Ref	**Title**	**Substantial**	**Sufficient**	**Limited**	**Nil**	**High**	**Medium**	**Low**	**High**	**Medium**	**Low**
15/16-14	Council Tax	✓						✓		1	
15/16-15	Special Investigation 1							✓	-	-	-
15/16-16	Sundry Debtors		✓				✓			1	
15/16-17	Creditors – Use of Purchase Orders						✓		1	1	3
15/16-18	Special Investigation 2						✓		1		1
									28	43	18

High Priority Audit Recommendations - Audit Committee Report

Appendix B

Category	Procurement				
Recom. No.	**Recommendation**	**Risk Factor (1 High, 3 Low)**	**Impl. Date**	**Status**	**Progress Bar**
AUD/1415-13/02	The procurement strategy of the Council should be reviewed and the Sustainable Procurement Policy and Strategy updated accordingly.	1	31-Mar-2015	●	80%
	Response				
	A proposed Sustainable Procurement Policy and Strategy for the procurement partnership has been prepared by the SPU manager in co-ordination with other partners and will require approval by Cabinet				
	Manager				
	Sharon Lynch; Dave Greenwood				
Comment History	07-Mar-2016	The Strategy was presented in October 2015, some changes were necessary to meet key Policies of the Council (Social Value, blacklisting and living wage) This is planned for April 2016 Cabinet.			
	24-Nov-2015	The Procurement Strategy was presented to the Corporate Leadership Team on 6th October 2015. This is planned to go to Cabinet for adoption early into 2016.			
	11-Sep-2015	Presentation of the Procurement Strategy is planned for October 2015			
	07-Jul-2015	A draft strategy has been produced and will be presented to CLT in July / August 2015 for September			

Category	Procurement				
Recom. No.	**Recommendation**	**Risk Factor (1 High, 3 Low)**	**Impl. Date**	**Status**	**Progress Bar**
AUD/1415-13/05	The Council should provide definitive instructions to service areas regarding the procuring of contractors and issue and awarding of contracts particularly in relation to the extent of involvement of the SPU.	1	30-Jun-2015	●	60%
	Response				
	It is envisaged that the issue of training is an appropriate topic for discussion within the proposed user group. The decisions made by CMG (see recommendation 1) regarding procedures for				

	advertising contracts via the SPU will require amendment to Financial Regulations.				
	Manager				
	Sharon Lynch; Dave Greenwood				
Comment History	07-Mar-2016	There are a number of procurement matters which require addressing, A report to CLT is to be produced outlying the key issues. The equalities process has been defined but there has still been some question as to the legality of standing list and this matter needs to be resolved as a priority. This will then define how bids from SMEs can be encouraged whilst also a satisfactory evaluation system of suppliers /contractors is in place outside Construction line.			
	11-Sep-2015	The Group are still working on this			
	07-Jul-2015	The Internal procurement user group is working on documented procedures and Flowcharts, which when complete will meet the requirements of this recommendation.			

REPORT TO: **AUDIT COMMITTEE** **DATE:** **21st March, 2016**

HEADING: **ANNUAL GOVERNANCE STATEMENT UPDATE AT FEBRUARY 2016**

PORTFOLIO HOLDER: **LEADER**

KEY DECISION: **NO** **SUBJECT TO CALL-IN:** **NO**

1. PURPOSE OF REPORT

This report presents to Audit Committee the most recent updates to the Annual Governance Statement (AGS) 2014/15 in advance of the preparation of the 2015/16 AGS.

2. RECOMMENDATION(S)

For Audit Committee to note the updated position.

3. REASONS FOR RECOMMENDATION(S)

For Audit Committee to be informed on a regular basis of changes to the Annual Governance Statement.

4. ALTERNATIVE OPTIONS CONSIDERED (with reasons why not adopted)

None. Regular review of the AGS position is good practice facilitating a more effective, ongoing review of progress against the AGS, the identified ‘Key Improvement Areas’, and to be able to keep evidence more easily up to date.

5. BACKGROUND

Recent guidance on the structure and content of any AGS has been developed jointly by CIPFA and SOLACE. The Guidance, set out in “Delivering Good Governance in Local Government: Framework”, has been given ‘proper practices’ status by the Department for Communities and Local Government through non-statutory guidance. Further guidance as to the way in which the AGS should be designed and produced has been published by the National Audit Office (NAO).

The format of the AGS for 2014/15 was revised in accordance with the NAO’s guidance with these new arrangements for the format and production of the AGS approved at Audit Committee on 28th September, 2015.

Process

Appendix B to the 2014/15 AGS provides summaries of the evidence gathered to demonstrate that each element of the governance framework is in place and to allow for an assessment to the soundness of that framework. They also identify areas where policies, procedures and processes are under review or development – or where some form of change is anticipated.

The information set out in Appendix B will be updated incrementally to reflect any changes in the extent and quality of relevant evidence arising from the review and revision of policies; new initiatives etc. that occur between now and the cut-off date for the ASG of 30th June 2016. This will facilitate a more effective, ongoing review of progress against the AGS, the identified ‘Key Improvement Areas’, and to be able to keep evidence more easily up to date.

The Corporate Performance Manager has reviewed the ‘Key Changes and Developments’ which are noted (in red) on the attached Annual Governance Statement 2014/15 Appendix B and C – February 2016 Updates.

6.

Corporate Plan:

The Committee’s active engagement in the development of the AGS gives greater assurance as to the adequacy of the Council’s governance framework.

Legal:

There are no legal issues arising from this report

Financial:

There are no financial issues arising from this report

Health and Well-Being / Environmental Management and Sustainability:
There are no Health and Wellbeing issues arising from this report

Human Resources:

There are no HR issues arising from this report

Diversity/Equality:
There are no direct implications on equality and diversity as a consequence of the proposals and recommendations outlined in this report.

Community Safety:
The provisions contained in the Police and Justice Act 2006 put in place arrangements to ensure that every local authority have a committee which will ‘meet to review or scrutinise decisions made, or other action taken, in connection with the discharge by the responsible authorities of their crime and disorder functions, no less than twice in every twelve month period.

Other Implications:

Not applicable

BACKGROUND PAPERS

None

REPORT AUTHOR AND CONTACT OFFICER

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Dave Greenwood

DEPUTY CHIEF EXECUTIVE

APPENDIX B - ANNUAL GOVERNANCE STATEMENT 2015/16 EVIDENCE UPDATED FEBRUARY 2016

CLARITY ABOUT PURPOSE & OUTCOMES

Ref	Governance Element	Documentary Evidence	Status
B1	**Corporate Plan** - reflects the Council's Corporate Priorities and Outcomes	New Corporate Plan	The new Corporate Plan has been finalised and approved by Cabinet 3rd December and Full Council 10th December, 2015. Delivery is being facilitated through the new Corporate Project Management framework, identified programmes and projects are aligned to each of the new Corporate Priorities.
B2	**Service Plans** identify how the Corporate Priorities and outcomes will be delivered at service level, containing further detailed intended improvements and performance.	Copies of Plans are published on the Council's Intranet as they are approved. Copies of current Plans also held on the Council Website	All Service Plans are scheduled to be reviewed in alignment with the new Corporate Plan, reviews to be completed by end April 2016. A revised Service Plan template is also in place.
B3	**Ashfield & Mansfield Sustainable Community Strategy** sets out a long term vision for the two districts based upon evidence of need and an understanding of what people say they want.	Copy held on the Website	Strategy adopted by Council July 2013

EFFECTIVE PERFORMANCE MANAGEMENT

Ref	Governance Element	Documentary Evidence	Status
C1	**Covalent -** performance management system holds all targets and performance actions required of the Council and its Officers together with associated, approved Performance Indicators. The System generates prompts to encourage completion of necessary actions and reporting of performance. The System supports regular performance reporting to senior management and Members	Copies of Reports to CLT, Cabinet and Committees are held on the Council Website	The Corporate Performance and Improvement Unit continues to investigate ways of enhancing corporate performance management arrangements. Recent development has now incorporated project management fields into the Covalent system to facilitate the management of improvement activity through the new Corporate Project Management Framework.
C2	**Budget Monitoring** - regular reports to budget holders, senior management and Members ensure that best use is made of the Council's financial resources	Copies of Reports to CLT, Cabinet and Committees are held on the Council Website	There is a regular cycle of budget reporting.
C3	**Scrutiny** - supports policy development and provides opportunities to consider the effect of the Council's policies and performance	Overview and Scrutiny Work Plan for 2015/16 was approved by Overview & Scrutiny Committee. A copy is also held on the Website	The Plan is being kept under review to ensure that it reflects changes in the Council's corporate priorities.

EFFECTIVE & TRANSPARENT DECISION MAKING

Ref	Governance Element	Documentary Evidence	Status
D1	**Constitution of the Council -** sets out basis upon which decisions are taken, covering: - Schemes of delegation - Provision for call-in - Definition of key decisions	The Constitution is published on the Council's Website.	The Constitution is subject to annual review - Council approval is required for any necessary changes.
D2		The Forward Plan settings out details of all key decisions expected to be taken during the next four months by Cabinet, a Cabinet Member or an Officer in relation to an executive function; and potential exempt decisions is published on the Council's Website.	

CLARITY ABOUT ROLES & RESPONSIBILITIES

Ref	Governance Element	Documentary Evidence	Status
E1	**Constitution of the Council** sets out the functions and roles of the Council, the Cabinet and Committees, Members and Officers and sets out the Schemes of Delegation.	The Constitution is published on the Council's Website	The Constitution is subject to annual review - Council approval is required for any necessary changes. The constitution is currently being reviewed and will be presented to AGM in May for approval. There are no significant changes proposed.
E2	**Portfolio Holders** are nominated by the Leader to have responsibility for the oversight of specific Divisions and receive regular briefings from the appropriate senior manager usually a Head of Service.	The list of Portfolio Holders and responsibilities is published on the Council's Website	Current list reflects changes made since the May Election.
E3	**Partnership Protocol -** with a supporting "toolkit" **provides** assurance that, in any partnerships entered into, the roles and responsibility of partners are clearly defined.	A copy of the Protocol is held on the Website	Protocol was last updated in April 2015.

STANDARDS & VALUES

Ref	Governance Element	Documentary Evidence	Status
F1	The **Constitution of the Council** contains • **Members' Code of Conduct** • **Code of Conduct for Employees** • **Members / Officers Protocol** • **Code of Procedures for the Planning Service** Together, these codes and protocols define the standards of behaviour required of Members and Officers	The Constitution is published on the Council's Website	The Constitution is subject to annual review - Council approval is required for any necessary changes.
F2	The Localism Act 2011 makes provision for the **Monitoring Officer** to investigate complaints of alleged Member misconduct under the oversight of **Standards & Personnel (Appeals) Committee**		
F3	The **Partnership Protocol** defines the parameters for acceptable behaviour within which the Council and all of its partners must operate	A copy of the Protocol is held on the Website	The Council's list of key partnerships are reviewed annually by Corporate Leadership Team whom review, add/delete partnerships from the list as appropriate
F4	In May 2015, Council approved the appointment of two co-opted Members to the Standards and Personnel Appeals Committee as a way of enhancing the effectiveness with which it discharges its Standards Functions	Minutes of Council May 2015	As yet, no co-options have occurred.

DEVELOP & MAINTAIN CAPACITY & CAPABILITY

Ref	Governance Element	Documentary Evidence	Status
G1	The Council has developed a structured **Training Programme for Members.**	A copy of the Programme is held on the Website Budget Monitoring Reports demonstrate the extent to which the available budget is applied. Copies are held on the Website.	The Council's achievement of the Members' Development Charter indicates that Member training arrangements are consistent with best practice. The 2015/16 Member Training Programme has now been completed. Standards Committee and Cross Party Leadership are monitoring attendance on member training.

Ref	Governance Element	Documentary Evidence	Status
G2	The **Constitution of the Council** specifies that Members must receive appropriate training before sitting and taking part in meetings of: Planning Committee; Licensing Committee and Sub Committees; Standards and Personnel (Appeals) Committee and Sub Committees ; and Chief Officers' Employment Committee	The Constitution is published on the Council's Website	The Democracy Officer undertakes monitoring to ensure that Members sitting and taking part in the Committees specified have met the mandatory training requirement.
G3	All employees are subject to **Performance Development Reviews** on an annual basis. Outcomes of each Officer's review are reported to HR so that identified training needs can be addressed. The Council's Training Budget is controlled by the HR Manager.	The PDR Guidance Manual is published on the Intranet: copy is also held on the Website. Budget Monitoring Reports demonstrate the extent to which the available budgets are applied. Copies are held on the Website.	Director of Corporate Services is currently reviewing the appraisal process in alignment with the Council's new Corporate Plan and organisational values. The completion of employee PDR's is actively monitored by CLT

CLEAR CHANNELS OF COMMUNICATION

Ref	Governance Element	Documentary Evidence	Status
H1	The Council's **Consultation and Engagement Strategy** was agreed at Cabinet in July 2013 and provides the strategic framework for development of effective channels of communication with all stakeholders.	A Copy of the Strategy is held on the Website.	The Strategy is due for review by the Corporate Performance and Improvement Manager which will be completed by the summer 2016.
H2	The **Citizens' Panel** is used to support focussed consultation exercises.	Citizens' Panel Newsletters demonstrate the nature of engagement with the Panel and provide a record of consultation planned and undertaken.	The Council is actively recruiting to expand the Panel: at present there are some 280 active members. A full page was dedicated to promoting the Citizens' Panel in the recently published ''All about Ashfield'' and it is hoped that this will encourage more residents to join up. The website and social media are continually used to promote the panel. The Citizens Panel have been engaged in 5 surveys and 3 Citizens Summit meetings during the last 12 months The Council now actively engages with the Ashfield Youth Forum who have started to hold their 6 weekly meetings at the civic centre and as such have become a youth voice which is more effectively engaged with the Council.
H3	The Assistant Chief Executive is lead officer for work in hand to implement proposals to increase residents' engagement with traditional **Member Surgeries** and to enhance scope for engagement by electronic means and through the use of social media	The commitment to enhance arrangements for engagement with residents was set out in the AGS 2014/15	A report was taken to the Joint Leaders Meeting on 23 November to consider a way forward. The Joint Leaders have suggested that further work is undertaken to develop options and that in the interim surgeries will continue in their current form
H4	The Council's **Whistleblowing Policy** provides a channel through which employees; contractors; or members of the public can raise concerns about possible misconduct or criminal behaviour.	The Policy has been published on the Council's Website.	As part of the Council's Counter-Fraud Strategy, work is in hand to raise awareness of the Policy and the channels through which concerns can be reported.

Ref	Governance Element	Documentary Evidence	Status
H5	The Council's Customer Services Team is the first point of contact under the Council's **Complaints, Compliments and Comments Policy**. Operational arrangements are in place to ensure that complaints received go to the correct manager and are dealt with on a timely basis.	A commitment to enhance arrangements to manage complaints data to improve service quality was set out in the AGS 2014/15	The Council is committed to act to develop appropriate and effective arrangements to analyse complaints data and use the information captured to improve services.
H6	The **Council Website** is designed as a two way channel of communication between the Council and all its stakeholders - both internal and external	The AGS for 2014/15 acknowledges deficiencies in the way in which the Website works.	A new project has been established to improve and develop the Council's public facing website and to develop and enhance the Council's use of social media including implementing new and different channels. The timescale for completion is end May 2016. This project is being managed by the Corporate Communications Manager.

EFFECTIVE INTERNAL CONTROL ENVIRONMENT

Ref	Governance Element	Documentary Evidence	Status
H1	**Financial Regulations** codify key elements of the financial control framework including • Budgeting & Budgetary Control • Ordering & Payments to Creditors • Payments to employees • Identifying, Collecting and Accounting for Income • Custody and management of cash and other assets. The Deputy Chief Executive as Section 151 Officer specifies how all financial transactions are to be carried out: processes are designed with imbedded controls intended to minimise scope for effort or fraud.	The Financial Regulations are published within Part 4 of the Constitution	Financial Regulations require updating: this work is in hand. A programme of financial awareness training is in hand to promote consistent, informed compliance with Financial Regulations.
H2	The Council's **Medium Term Financial Strategy provides** an analytical framework to ensure that the Council has the financial resources needed to meet ongoing commitments.	The MTFS requires Cabinet approval.	The MTFS was approved at Cabinet in February 2016
H3	**Contract Procedural Rules** set out arrangements designed to minimise the risks posed to the Council of fraud or error in the tendering and management of contracts.	Contract Procedural Rules are published within Part 4 of the Constitution. Contract Procedural Rules are reviewed annually to ensure that they remain fit for purpose.	The Contract Procedure Rules have recently been updated to take into account new legislation. They will be presented to Council for approval on 14th April 2016
H4	The Council's **Counter-Fraud Strategy** has been reviewed and work is in hand to obtain Council approval of a revised Strategy.	Strategy was considered and approved by Council in February 2016	An Anti-Corruption Strategy has yet to be developed.
H5	The Council's **Risk Management Strategy** prescribes the Council's arrangements to manage risk. It is supported by the **Corporate Risk Register** and Directorate Risk Registers.	The Strategy was approved by Cabinet and is available to employees on the internal Website. A copy is held on the Website	The Risk Management Strategy was last revised in June 2015. The Corporate Risk Register has been reviewed through CLT. Service risks will be reviewed as part of service planning during the spring 2016
H6	The **Monitoring Officer** has a statutory duty to advise the Council on the legality of its decisions and actions. The Monitoring Officer is supported by a team of legal professionals.	The role of the Monitor is defined in the Constitution	The Monitoring Officer has access to the resources required to discharge her statutory duties
H7	The Council's **Internal Audit** providers carry out a rolling programme of risk-based audit assignments to give assurance that the internal control operates effectively to manage the Council's risks	The Audit Plan 2015/16 was approved by Audit Committee in April 2015	The Council has recently joined the Central Midlands Audit Partnership and will shortly agree the 2016/17 Audit Plan.

APPENDIX C - PROGRESS WITH KEY IMPROVEMENT AREAS 2014/15 AGS - UPDATED FEBRUARY 2016

Key Improvement Area	Lead Officer	Target Date	On Target?	Status
To identify an alternative means of procuring a sustainable, high-quality internal audit service at an acceptable cost to the Council.	DCE	Dec 2015	✓	**Complete** - subject to Member approval of proposals
To develop alternative means of accessing the specialist resources required to undertake successful fraud investigations	DCE	March 2016	✓	**Complete** - subject to Member approval of proposals
To ensure that a clear understanding of the Council's financial position informs all strategic decisions taken by Members	DCE	Oct 2015	✓	**Complete** – subject to formal approval of the MTFS
To complete outstanding work associated with the Single Status Agreement	ACE	Dec 2015		**Work in Progress** - Job evaluation scores were given to the Legal Team and a number of appeals lodged. The appeals were considered and dealt with by end February 2016. 3 outstanding evaluations in the Elections Team are due to be moderated shortly. As such the extended deadline of end March 2016 is still achievable
To address the issues of training of staff processing benefit claims and management of resources available to deal with benefits cases identified through the audit process.	DCE	March 2016	✓	**Work in Progress** – better prioritisation of cases and the delivery of training has resulted in some improvement in performance.
To promote consistent, informed compliance with Financial Regulations.	DCE	Ongoing	✓	**Work in Progress** - workshops designed to ensure compliance with the Regulations relating to the ordering of goods and services have been delivered : the effectiveness of this type of intervention will be assessed before further workshops, or other training options, are developed
To implement recommendations and address recognised deficiencies in the management of the Council's website and intranet.	CE	March 2016	N/A	**Redundant** – because of a more recent strategic initiative
To pursue enhancement in the Councils procurement framework.	DCE	March 2016		Revised Procurement strategy will be presented to Cabinet in April 2016
To develop appropriate and effective arrangements to analyse complaints data and use the information captured to improve services.	DCE	March 2016		Complaints process to be reviewed in 2016/17

Key Improvement Area	Lead Officer	Target Date	On Target?	Status
To monitor the effectiveness of the Council's response to the LGA report and to provide such support as might prove necessary to develop positive working relationships across the Council.	ACE	Ongoing		Numerous recommendations following on from the LGA report were accepted at the AGM on 21 May 2015. The Standards & Personnel Committee will continue to monitor the Council's response. An update report was taken to Standards & Personnel Committee on 20 July 2015 and a further review report will be presented to Committee on 14 March 2016. All actions have been progressed.
To ensure ongoing Member engagement with the training programme and to ensure that training delivered is effective.	ACE	Ongoing		An update report was taken to the Joint Leaders Meeting on 23 November and options are being considered on how to improve engagement with training
To implement proposals both to increase residents' engagement with traditional Member Surgeries and to enhance scope for engagement by electronic means and through the use of social media	ACE	Ongoing		A report was taken to the Joint Leaders Meeting on 23 November to consider a way forward. The Joint Leaders have suggested that further work is undertaken to develop options and that in the interim surgeries will continue in their current form

REPORT TO:	**AUDIT COMMITTEE**	**21st March 2016**
HEADING:	**PENSION ASSUMPTIONS FOR 2015/16 STATEMENT OF ACCOUNTS**	
PORTFOLIO HOLDER:	N/A	

KEY DECISION: **NO** **SUBJECT TO CALL-IN:** **NO**

1. PURPOSE OF REPORT

The report is to allow members to consider the proposed assumptions to be used by the Pension Fund Actuary in preparing the International Accounting Standard (IAS) 19 figures reported in the Councils annual accounts for 2015/16

2. RECOMMENDATION(S)

Members are asked to consider the actuary's briefing note attached as appendix A. and proposed IAS19 assumptions, and agree them as the basis for the calculation of the figures required for the 2015/16 Statement of Accounts.

3. REASONS FOR RECOMMENDATION(S)

It is best practice that the actuarial assumptions used in preparing the IAS19 figures reported in the Accounts are considered prior to their agreement and use in the compilation of the actuary's report. As such this report delivers the council's obligations as part of the closure of the 2015/16 Statement of Accounts.

4. ALTERNATIVE OPTIONS CONSIDERED

Members could recommend that a bespoke report is used for the calculation of the council's figures; this would incur an additional cost and require reasoning for the departure from the proposed assumptions.

5. BACKGROUND

5.1 IAS19 - Employee Benefits, is one of the financial reporting standards that the Council must comply with when producing its annual Accounts. IAS19's basic requirement is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

5.2 To calculate the cost of earned benefits for inclusion in the Accounts, the Nottinghamshire County Council Pension Fund schemes Actuary, Barnett Waddingham use certain assumptions to reflect expected future events which may affect those costs. The assumptions used are designed to lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

5.3 The results of the overall valuation can be volatile from year to year as the fund's investments are in a range of asset types whose performance will vary from year to year while liabilities are assessed on the basis of corporate bond yields. The results to some degree reflect the relative movements in these financial instruments.

5.4 Ashfield District Council's net pension liability (the difference between the assets held and projected liabilities) as at 31 March 2015 was calculated at £76.110m. This is a material component of the Council's balance sheet, and therefore its net worth. As such it is important that the Council is supportive of the assumptions being made by the actuary in their calculations. This year's net position will be affected by the assumptions used, but does not immediately change ongoing revenue costs.

5.5 The calculated costs and the underlying assumptions, based upon the advice of the actuary and the administering authority. Nottinghamshire County Council will be used in preparing the Council's 2015/16 Accounts.

5.6 The responsibility for setting the assumptions rests with the employer and alternative assumptions can be used by the actuary however the Actuary would impose additional fees for this work. The accounting requirements of IAS19 do not require that every individual estimate is a "best estimate". Directors (or equivalent) of the organisation should be satisfied that the combined effect of the assumptions as a whole is reasonable.

5.7 The proposed financial assumptions for 2015/16 are detailed below

The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used, and this year's proposed assumptions are listed below and detailed in the Actuary's briefing note at Appendix A:-

- **Corporate bond yields.** This is used to derive the discount rate which is applied to the employer's liabilities to calculate their future values. The rates used are those that match the duration of the employer's liability.
- **Expected Return on Assets.** The actuaries anticipate that a typical local Government Pension Fund might achieve a negative return of around 5% in the year to 31 March 2016 although this may vary depending on the individual funds investment strategy.
- **Inflation Expectations.** The levels of future Retail Prices Inflation (RPI) are assessed on the basis of the yields on fixed interest and index linked government securities over the period of the duration of the liabilities. The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI) which historically is lower than the Retail Prices Index. The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of 0.9%.
- **Salary Increases** – The actuaries assess that salary increases will exceed the Consumer Prices Index by between 1.5% and 1.8% which will be applied to the funding valuations at 31 March 2016.

The overall impact of the assumptions for an average employer is set out below but it should be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Ashfield may be different from the assessment below.

Assumption	**Duration of Individual Employee Liability**			
	10 Years	**15 Years**	**20 years**	**25 Years**
Corporate Bond Yields	-4%	-7%	-7%	-9%
Pension Increase	-1%	0%	0%	0%
Salary Increase	0%	0%	0%	0%
Overall impact	-7%	-7%	-7%	-9%

6. IMPLICATIONS

Corporate Plan:

There is no impact in relation to the Long Term Outcomes and Corporate Priorities.

Legal:

There are no legal implications.

Financial:

There are no direct financial implications as a result of this report, as it sets out assumptions that the actuary uses to calculate the pension position for the Council under IAS 19 to show the estimated net value of the Council's portion of the pension fund (assets less liabilities). Changes in assumptions will affect the net position, but this has a nil overall change in the resources available to the Council on the balance sheet as any changes to the income and expenditure statement are reversed through statutory accounting entries.

It is best practice that the actuarial assumptions used in preparing the IAS19 figures reported in the Accounts are considered prior to their agreement and use in the compilation of the actuary's report. As such this report delivers the council's obligations as part of the closure of the 2015/16 Accounts.

Health and Well-Being / Environmental Management and Sustainability:

There are no health and wellbeing / environmental and sustainability impacts

Human Resources:

There are no human resource impacts

Diversity/Equality:

There are no diversity/ equality impacts

Community Safety
There are no community safety impacts.

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Robert Mitchell

CHIEF EXECUTIVE

Accounting reporting as at 31 March 2016

This note outlines some of the changes to the key financial assumptions that are used in preparing the IAS19 and FRS102 accounting numbers since the last reporting date as well as information on asset performance over the period.

This year FRS17 has been replaced with FRS102 to align it with IAS19. We have set out the key changes in Appendix 1 to this report for your information.

In the FRS102 disclosures we prepare, we will include full comparators, setting out last year's disclosures under FRS17 and the disclosures had FRS102 applied.

How has the accounting position changed?

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds, as set out below) and so the results can be very volatile from year to year.

As we will not know the assumptions that will be adopted for accounting disclosures until 31 March 2016, we have utilised the latest market statistics available. The following analysis uses market statistics as at 31 January 2016.

The responsibility for setting assumptions ultimately rests with each employer and therefore if an employer were to request alternative assumptions then we would be happy to consider using these in producing our report for the employer.

The change in the balance sheet position over the year is mainly dependent on the answers to three key questions and this report is split into these three sections:

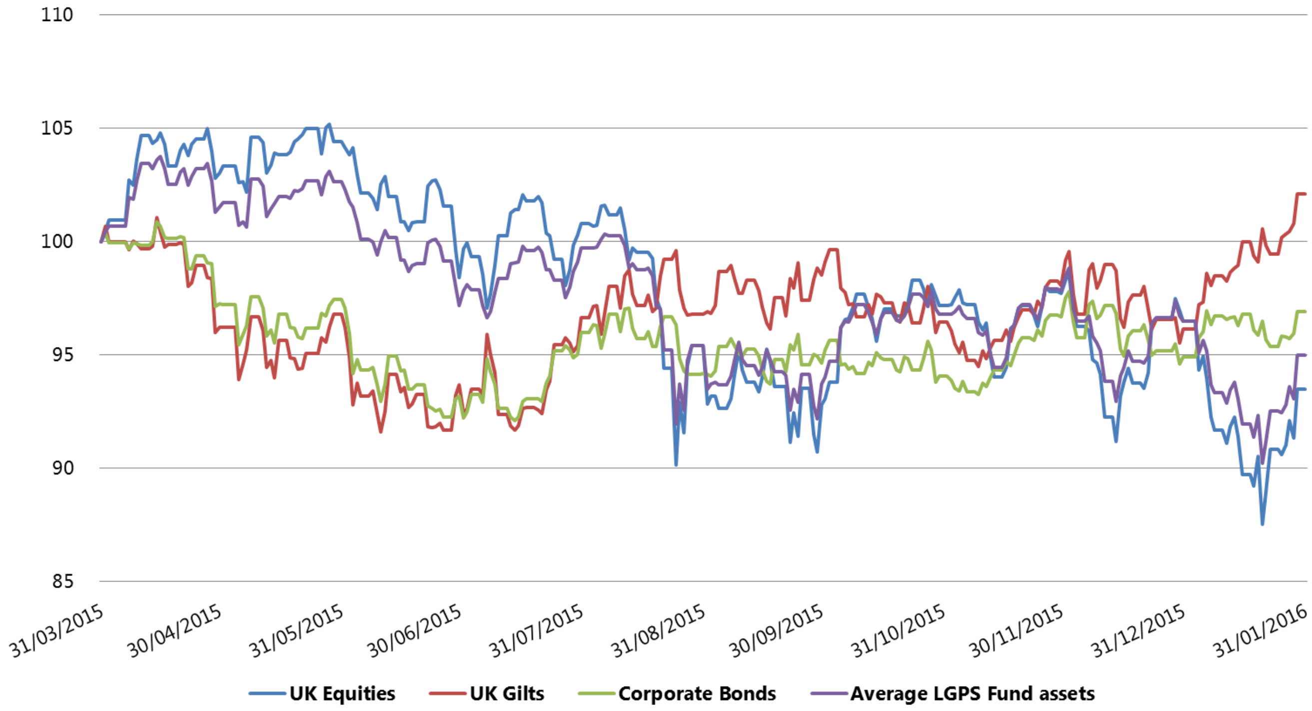
- What were **asset returns** for the twelve months to 31 March 2016?
- What were **corporate bond yields** as at 31 March 2016?
- What were **market expectations of inflation** as at 31 March 2016?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here. This document has been circulated with this briefing note but please get in touch with the Fund if you would like a copy.

Please let your usual contact know if you have any queries.

Asset returns

The following chart plots returns from the major asset classes since 31 March 2015 alongside the expected return achieved by an average LGPS Fund with assets invested 75% in equities, 20% in corporate bonds and 5% in gilts.



As we see, there has been volatility in the returns over the year in all asset classes with only UK gilts producing an overall positive return over the period. Equities performed well at the start of the year with significant falls over the late summer as a result of the financial crisis in China and a further fall in the past month following a slight recovery.

Based on the performance to 31 January 2016 and the allocation outlined above, a typical LGPS Fund might have achieved a negative return of around 5% for the year but this could vary considerably depending on each Fund’s investment strategy. This estimate ignores Fund experience and deficit contributions.

If Fund returns have been around this mark this will have led to an actuarial loss on the assets which would worsen the accounting position but whether this has increased the accounting deficit depends mainly on the assumptions used to calculate the liabilities. This is discussed in the next section.

Changes to accounting assumptions

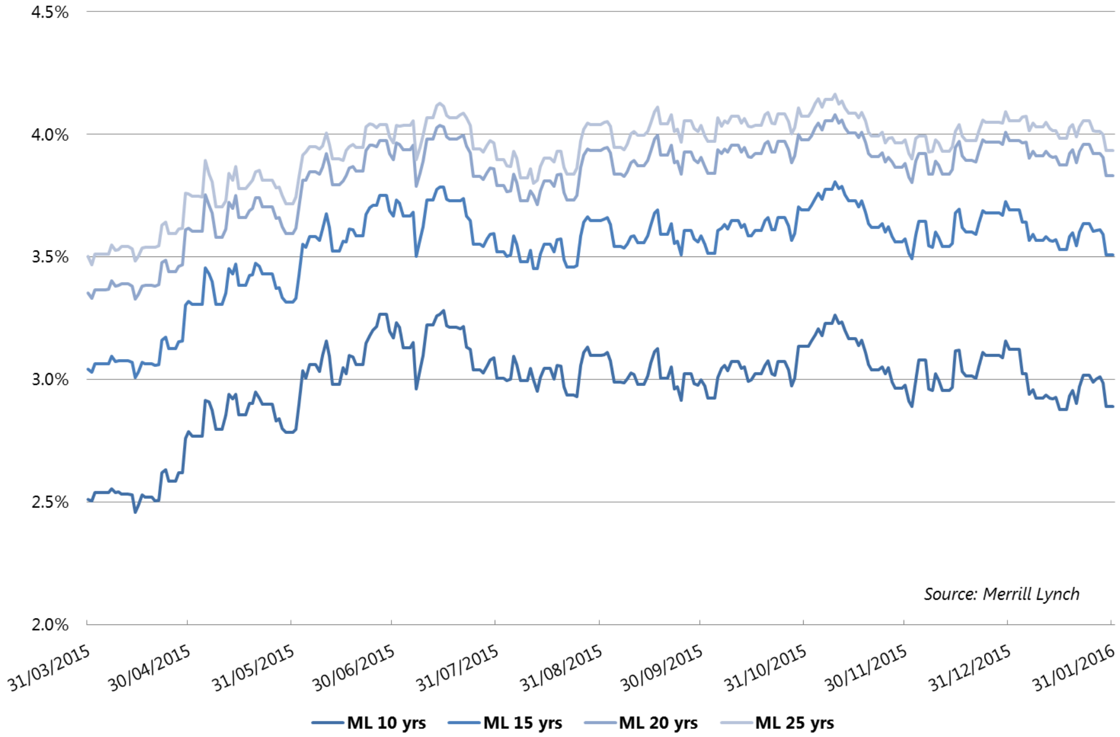
The key financial assumptions required for determining the pension liabilities under either accounting standard are the discount rate, linked to corporate bond yields, and the rate of future inflation. These assumptions are discussed in this section.

Corporate bond yields

The liabilities are valued using a discount rate based on corporate bond yields that match the duration of the employer's liabilities. In deriving the financial assumptions for an individual employer as at 31 March 2016, we will estimate the duration of the employer's liabilities and then use the point on the Merrill Lynch AA-rated corporate bond yield curve which corresponds to this duration. This is the same approach as last year.

The duration of an employer's liabilities is the weighted average time to pay the future expected cashflows for every member. This is estimated based on the data from the last actuarial valuation.

The following chart shows the change in corporate bonds yields over the last year as measured by the Merrill Lynch AA-rated corporate bond yield curve based on durations of 10, 15, 20 and 25 years.



Source: Merrill Lynch

As we see bond yields have also been volatile over the period. Corporate bond yields have increased over the period at all durations which would result in a decrease in liabilities, all else being equal. The following table shows the effect of the changes in discount rate over the period to 31 January 2016 for sample employers with durations of exactly 10, 15, 20 and 25 years.

Duration (years)	Effect of change in discount rate on employer's liabilities
10	An estimated 4% decrease in liabilities
15	An estimated 7% decrease in liabilities
20	An estimated 7% decrease in liabilities
25	An estimated 9% decrease in liabilities

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which benefits increase in deferment and in payment.

IAS19 suggests that in assessing future levels of long-term inflation we should look to the gilt market to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE). Specifically, the point on the BoE's market implied inflation curve which corresponds to the duration of the employer's liabilities.

Difference between CPI and RPI

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI) rather than RPI. As there is limited market information on CPI-linked assets, we take the implied RPI assumption mentioned above and make an adjustment.

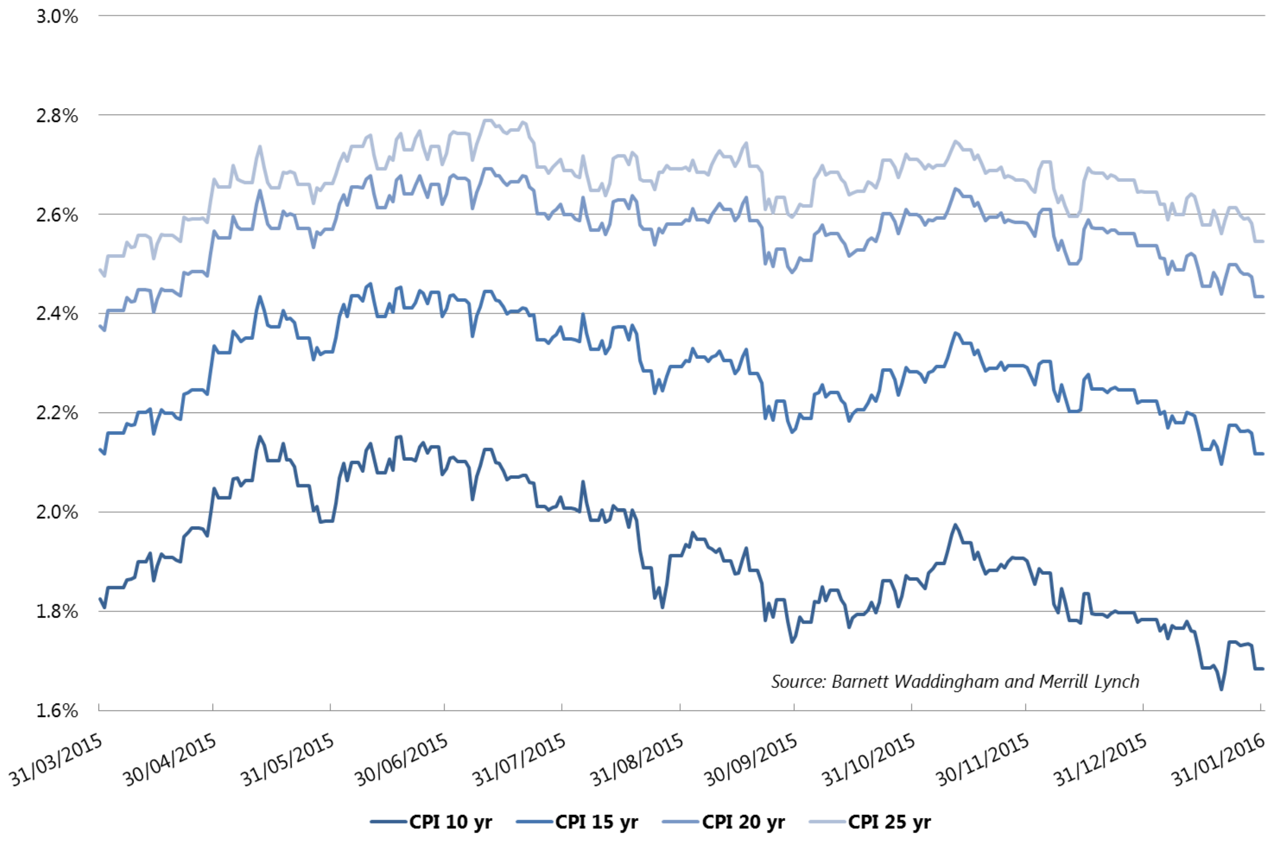
Over 20 years to 2010 CPI was on average around 0.7% p.a. lower than RPI. Of this, 0.5% p.a. could be attributed to the 'formula effect' resulting from technical differences in the way the two indices are calculated, and the remaining 0.2% p.a. could be attributed to differences between the compositions of the two indices. In 2010 a change was made to the way the indices were calculated and at the time this was expected to increase the difference between CPI and RPI going forward. The 'formula effect' since 2010 has been observed to be between 0.8% p.a. and 1.0% p.a.

In March 2015, the OBR (Office for Budget Responsibility) issued a report outlining their current views on the differences between RPI and CPI. The report suggests the gap to be about 1.0% p.a. while the Bank of England central long-term estimate suggests 1.3% p.a.

Taking into consideration the comments above as well as analysis into this assumption as a firm, we have therefore decided to revise our standard assumption about the difference between RPI and CPI as we believe that there is sufficient evidence to justify a slightly wider gap although we would also still accept a range of CPI assumptions.

We have therefore assumed that CPI inflation will, on average, be 0.9% lower than RPI and this is slightly higher than the 0.8% difference assumed last year resulting in a slightly lower CPI assumption.

The below graph plots the progress of the CPI inflation assumption since 31 March 2015.



Source: Barnett Waddingham and Merrill Lynch

The following table shows the effect of this for sample employers with durations of exactly 10, 15, 20 and 25 years. In estimating the effect we have made an assumption regarding the proportion of membership with pensions benefits linked to CPI at each duration.

Duration (years)	Effect of change in pension increases on employer's liabilities
10	An estimated 1% decrease in liabilities
15	Estimate little effect on the liabilities
20	Estimate little effect on the liabilities
25	Estimate little effect on the liabilities

As we can see the effect of the change in pension increases is an estimated small decrease to the liabilities at short durations and very little effect at longer durations. These figures exclude any effect from the change in the real salary increase assumption.

As you can see from the chart above there has been more volatility in the inflation rates over the period but future expectations of inflation levels are currently at a broadly similar position to last year.

Salary increases

Although future benefits are not linked to final salary, benefits accrued up to that date will continue to be linked to the final salary of each individual member.

For all Funds, we intend to use the salary increase assumption from the last triennial funding valuation and this will typically range between 1.5% and 1.8% above CPI. In some cases this will include a short-term overlay to reflect the current economic climate. This will be consistent with the approach adopted last year.

The effect of the changes in salary increase are summarised in the table below for sample employers with durations of exactly 10, 15, 20 and 25 years. In estimating the effect we have also made an assumption regarding the proportion of membership with pensions benefits linked to salary increases at each duration.

Duration (years)	Effect of change in salary increases on employer's liabilities
10	Estimate little effect on the liabilities
15	Estimate little effect on the liabilities
20	Estimate little effect on the liabilities
25	Estimate little effect on the liabilities

Future expectations of long term salary increase levels are currently at a broadly similar position to last year and therefore, there is very little effect on the liabilities at all durations.

This is the assumption that employers are most likely to request a specific assumption in line with their own expectations and we are happy to discuss this as required.

Overall effect of the changes to the financial assumptions

What does this all mean when we bring it all together?

The first caveat is that no employer is average and so any prediction of what might apply to an average employer may not necessarily apply to every, or indeed any, employer.

The effect of the changes in the financial assumptions on an employer’s liabilities are dependent on what point of the bond yield curve and inflation spot rate curve is adopted, and thus dependent on the duration of their liabilities. The table below describes the likely effects for sample employers at liability durations of exactly 10, 15, 20 and 25 years.

Duration (years)	Effect of changes in financial assumptions on employer's liabilities
10	An estimated 7% decrease in liabilities
15	An estimated 7% decrease in liabilities
20	An estimated 7% decrease in liabilities
25	An estimated 9% decrease in liabilities

As you can see, there is likely to be a decrease on the liabilities at all durations as a result of the change in assumptions over the year, mainly as a result of the increase in the discount rate assumption. The final results will depend on market conditions as at 31 March 2016.

If we assume that Fund returns are as in the asset return section of this report, we believe that this decrease in the liabilities will be largely offset by a decrease in the asset value.

Therefore we expect most employers could see a relatively stable year in terms of the funding level (the assets divided by the defined benefit obligation) or even a small improvement but this will depend on each Fund’s asset returns and how mature their liabilities are and how much they have paid in deficit recovery contributions.

Adjustments to fees

The Fund will communicate fees to employers however we would like to make you aware that there may be additional fees if there are particular features or events for an employer which need to be taken into account. As examples of this:

- where an employer chooses to nominate their own assumptions;
- if there are additional calculations to be done if a surplus is revealed;
- when there are significant staff transfers/movements to allow for;
- if additional disclosures are required; or
- employers request to receive their report by a particular deadline.

Please get in touch with the Fund for further information on fees.

Appendix 1 **FRS 102 Standard**

The FRS102 standard applies to employers who have an accounting year beginning on or after 1 January 2015 although earlier adoption was permitted. From that time FRS17 will no longer apply.

The key changes under the new FRS102 standard are as follows:

- The "expected return on assets" figure is no longer be used. Instead, the "finance cost" which was the difference between the interest on liabilities and expected return on assets will be replaced by a "net interest cost", calculated using the discount rate applying at the start of the period;
- Discount rates are no longer specifically pegged to AA-rated bonds, only to "high quality corporate bonds", although it is not expected that this change will have much of an impact.
- More disclosures will be required about the risks posed by the Fund;
- Various components within the disclosures will be relabelled;
- A change in the way surpluses are restricted which may allow a surplus to be recognised where it was not under FRS17.
- The cost of a defined benefit scheme will be divided into four elements, the first three of which will be included in profit/loss, the fourth in other comprehensive income:

    1. Change in liability due to employee service during the reporting period (service cost)
    2. Net interest on the net liability
    3. Benefit changes, curtailments and settlements (past service costs)
    4. Re-measurement of the liability (comprising actuarial gains and losses and the return on the Fund assets (excluding the net interest amount))

- FRS 102 refers to the "fair value" of assets rather than specifically requiring the use of bid values;
- Treatment of expenses - administration costs, other than those relating to investment management, will need to be expensed as they are incurred.

The introduction of FRS102 may also affect how employers disclose their liabilities from unfunded schemes as the standard requires information on the contributions payable to these schemes and further narrative on the scheme and its associated risks.

FRS102/IAS19 Glossary and FAQs

The purpose of this note is to provide LGPS Fund employers and their advisers with some further explanatory details about the reports we produce in accordance with Financial Reporting Standard 102 (FRS102) and International Accounting Standard 19 (IAS19).

It is divided into a glossary of terms followed by some frequently asked questions.

A topical briefing note discussing assumptions and an indication of the likely trend in results is also issued after each of the main accounting dates. In contrast, this briefing note describes the fundamentals of the accounting standards and is only expected to be updated occasionally (e.g. when the standards change). Please get in touch if you would like a copy of any of these notes.

If you have any questions please get in touch with the Fund in the first instance.

Background

Sponsors of defined benefit pension schemes are required to account for the cost of providing retirement benefits and reserve for any outstanding liabilities associated with the schemes they sponsor. They are also required to make certain disclosures about these schemes in the notes to their accounts.

FRS102 and IAS19 are accounting standards that set out the accounting treatment for retirement benefits. For UK listed companies and local authorities IAS19 applies; for other UK entities FRS102 applies. Companies with overseas parents may need to make disclosures under other standards.

A key feature of both standards is the requirement for liabilities to be valued with respect to yields on “high quality” corporate bonds.

The actual contribution rates required by employers for each Fund are calculated every three years following a triennial actuarial valuation. The last valuation of the English and Welsh funds was at 31 March 2013, with revised contribution rates coming into force from 1 April 2014. The Scottish funds completed valuations as at 31 March 2014 with revised contribution rates coming into force from 1 April 2015.

These contribution rates are calculated using assumptions agreed with the Fund set with reference to expected future investment returns of the Fund unlike the accounting standard which value the liabilities using solely the yields on corporate bonds.

Therefore, the contribution rates paid by employers are not affected by the accounting results.

Glossary of terms

Actuarial gains & losses

This item reflects the extent to which the movements of the assets and liabilities over the accounting year have not been exactly as assumed at the previous accounting date, and also the effect on the liabilities of changes to the assumptions used to value them.

The components of the actuarial loss on assets are:

- the difference between the actual investment return on the assets over the year, and the **interest on assets**, plus
- an experience item, if applicable.

The components of the actuarial loss on liabilities are:

- the effect of the change in assumptions used to value the liabilities compared to the previous year, plus
- an experience item, if applicable.

There is a requirement to split the change of assumptions into those of a financial nature (discount rate, assumed future inflation growth etc.) and those of a demographic nature (future mortality rates etc.).

For more details on experience items, please see the “Gains and Losses” section of the FAQs.

Administration expenses

Both accounting standards require the administration expenses to be recognised when the administration services are provided and to be reported as a separate item in the Profit and Loss (P&L) statement.

Contributions by employer including unfunded

This is all of the contributions paid by the employer to the Fund including the normal contributions for active members, contributions towards the deficit and any early retirement strain contributions. If **unfunded benefits** (usually pensions in payment) are paid through the Fund and are to be included in the accounting report, then payments in respect of **unfunded liabilities** are included here as well.

For more information on the inclusion of **unfunded benefits**, please see the “Do I need to include unfunded benefits on my balance sheet?” section of the FAQ’s.

Current service cost

The **current service cost** represents the cost to the employer of the benefits earned by active members during the accounting year. This is added to the liabilities and is not the same figure as the employer contributions paid to meet these ’new’ benefits. It is calculated using assumptions at the start of the accounting year which means that it is not a fixed percentage of payroll and it is expected to vary from year to year as assumptions change.

Under both standards this is a component of the **Service cost** in the P&L.

Curtailment

These will typically be the FRS102/IAS19 equivalent of early retirement costs. The actual strain payments to the Fund are calculated by the administering authority using a different set of assumptions and so the calculation of this amount under FRS102/IAS19 is unlikely to be the same as the strain payment cash amounts.

Under both standards the loss on these is a component of the **Service cost** in the P&L.

Discount rate

Pensions and lump sums will be paid at some point in the future and so a rate known as the **discount rate** is used to express these expected future payments as a single current value.

It is analogous to a rate of interest; to illustrate this, if we put £100 into a savings account today, it is expected to grow with interest every year to become a higher amount in the future. Similarly, if we are aiming to have £100 at a future date then we only need deposit a smaller amount now which will accumulate with interest to give £100 later.

A higher **discount rate** means that the future payments have a smaller value now i.e. a lower pension liability.

The accounting standards prescribe that the **discount rate** should be based on market yields at the reporting date of a 'high-quality corporate bond' of equivalent currency and **term** to the scheme liabilities.

Duration

Please see definition of **term** below.

Demographic assumptions

These are the assumptions used to generally provide estimates of the likelihood of benefits and contributions being paid and for how long. This consists of all the non-financial assumptions used to value the liabilities including the mortality assumptions (i.e. how long members are likely to live for), the rates of members retiring early and the rate at which members exchange pension for cash at retirement.

Demographic assumptions are generally consistent with those adopted for the most recent triennial valuation.

Interest cost

Over the accounting year the existing pension benefits come closer to payment than they were at the start, and so the value of the liabilities increases as a year's worth of interest is added on. This forms part of the **net interest on defined liability** (in the P&L)

Interest on assets

The expected return on assets has been replaced with an interest on assets item which is calculated with reference to the **discount rate.** It is therefore based solely on the expected returns on corporate bonds. This forms part of the **net interest on defined liability** (in the P&L)

Net interest on defined liability

The accounting standards assume that assets increase in line with the **discount rate**. This is combined with the **interest cost** on liabilities to form the net interest on the defined liability which is a component of the P&L.

Past service cost

Additional benefits granted during the accounting year give rise to a **past service cost**, for example, an employer decision to award additional service to a retiring employee.

Under both standards this is a component of the **Service cost** in the P&L.

Present value of defined benefit obligations

This is also referred to as the past service liabilities. This is the value of the past service liabilities, calculated using service to the accounting date and allows for several assumptions such as future increases to salaries, future mortality rates, future inflation rates etc. The key assumption used to calculate these liabilities is the **discount rate**.

Re-measurements

Re-measurements are recognised in Other Comprehensive Income and is effectively the total of the actuarial gains and losses from the changes in the assets and liabilities over the accounting period. This will include the investment return on the assets in excess of interest, change in assumptions (financial and demographic) as well as any experience adjustments. More detail about this is in the FAQ section.

Service cost

Service cost is a component of the P&L and includes **current service cost**, **past service cost** and any actuarial gains or losses on **settlements** and **curtailments**.

Settlement

A **settlement** will generally occur where there is a bulk transfer of members in to or out of the Fund or an employer’s share of the Fund. The **settlement** loss or gain reflects the difference between transferred asset share, and the value of the transferred liabilities when calculated on an FRS102/IAS19 basis. The value will be different due to the different assumptions used to put a value on the bulk transfer and the assumptions used to put a value on the FRS102/IAS19 figures.

Under both standards this is a component of the **Service cost** in the P&L.

Term

When we talk about the **term** of the liabilities we mean the average time to payment of benefits. This is used interchangeably with the **duration** of the liabilities.

Unfunded benefits

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years (CAY) pensions. Such benefits are usually charged to the employer as they are paid. Other **unfunded benefits** include gratuities and enhanced teacher’s pensions which are recharged to the employer, and pensions in respect of some other public sector pension schemes.

This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the employer has responsibility for funding by paying contributions to the Fund.

Frequently asked questions (FAQs)

Balance sheet

How are my assets calculated?

The assets shown are an estimate of the employer's notional share of the total Fund assets at the accounting date. A full assessment of each employer's asset share is made at each triennial valuation. For interim FRS102/IAS19 reporting the approach is to take the asset share at the start of the accounting year and roll this forward to allow for the employer's own cashflows to and from the Fund during the year and actual (or estimated) Fund returns.

Thus, the employer's asset share is not a fixed percentage of the Fund and is expected to vary over time.

The assets will change from year to year and increase as more benefits are accrued within the Fund (and contributions are paid in to the Fund in respect of these benefits) and reduce as benefits are paid out of the Fund such as lump sums and pensions. The assets will of course also increase or reduce over the year depending on the investment returns received on the Fund over the year.

What are the liabilities and how is their value calculated?

The liabilities are the promised benefit payments (e.g. pensions, lump sums) due in the future from the Fund to its members. The value of the liabilities is calculated using a set of assumptions including how these payments will increase over time both before and after retirement, how long they will be paid out for (i.e. how long each member is likely to live for) and the **discount rate** to apply to them to give a current value.

They will change from year to year and increase as more benefits are accrued within the Fund and reduce as benefits are paid out of the Fund. The liabilities may also increase or decrease as the assumptions used to calculate their value change. For example, if the **discount rate** assumption decreases, the liabilities will increase. Therefore, even if your assets have performed well, if the liabilities increase at a rate faster than the assets increase, then the deficit in the Fund will increase.

Do I need to include unfunded benefits on my balance sheet?

Unfunded benefits may be paid through the Fund and immediately recharged to the employer so these pension payments are regarded for the purposes of FRS102/IAS19 as pension contributions.

FRS102 and IAS19 both state that all retirement benefits should be accounted for when the member earns the benefit and not when it is paid by an employer. Therefore when a member retires and is awarded **unfunded benefits** the value of all future payments must be taken into account at the point of retirement. However, **unfunded benefits** may be allowed for elsewhere in an employer's accounts and so care must be taken to ensure that there is no double counting these liabilities.

When asked to allow for these benefits we are provided with information about the unfunded pensioners being paid through the Fund and we will value these benefits in addition.

Assumptions

What is the difference between assumptions for an ongoing funding valuation and an accounting valuation?

Contributions payable by employers are derived using the same assumptions as the ongoing funding valuation. As well as setting contributions, the purpose of the ongoing funding valuation (also referred to as the triennial valuation) is to review the financial position of the Fund. An accounting valuation is prepared to meet statutory disclosure requirements and is included in the employer's annual accounts.

These assumptions can be significantly different for reasons explained below.

The assumptions adopted for an ongoing funding valuation are set by the Fund Actuary following discussion with the administering authority and in line with the LGPS Regulations. Broadly, they are set based on the long-term expected cost of providing LGPS benefits and take account of the investment strategy of the Fund and the **expected return** on each asset class that the Fund invests in.

In contrast, FRS102 and IAS19 are fairly prescriptive accounting standards which aim to allow employers' pension obligations to be compared with each other.

The main area where funding valuations for our Funds and accounting valuations differ is in the derivation of the **discount rate**.

For ongoing valuations, the **discount rate** adopted is based on the expected investment return of the assets actually held by the Fund. For FRS102/IAS19, the **discount rate** is required to be determined with reference to the market yield on 'high quality' corporate bonds and with consideration of the **duration** of the employer's liabilities. Current market conditions are such that corporate bond yields are low compared to the ongoing funding assumptions and so in general, we would expect that employers' costs and liabilities under FRS102 / IAS19 to be higher than those calculated in an ongoing funding valuation. However, it is important to note that the accounting position has no bearing on the amounts that the employers actually pay into the Fund, this being determined with reference to the ongoing funding position.

Why is the inflation assumption different to current inflation levels?

The current level of inflation is a measure of how prices have increased in the recent past. However, in order to project cashflows to and from the Fund over the future lifetime of the Fund, we are interested in what inflation will do in the future and therefore we have to make an assumption about expected future levels of inflation over the long term. We do this by using information published by the Bank of England.

How much scope is there for 'tweaking' the assumptions?

One of the objectives of FRS102 and IAS19 is to ensure that organisations all account for pension costs on a consistent market-related basis so there is not a huge amount of scope to deviate away from typical market assumptions.

One key area in which the employer can exercise more control is the assumption about future levels of pay increases. There is no market indicator of this particular assumption but history tells us that in the longer term pay increases do tend to exceed price inflation – typically by 1-3% per annum.

We do provide a recommended set of assumptions but the employer is ultimately responsible for the assumptions that are adopted.

Pension costs

Why is the current service cost different from the contributions paid?

Contributions are required from the employer to meet the cost of the benefits being earned by current employees, and to pay off any past service deficiency. Minimum contributions are certified when a new employer joins the Fund and then again at each triennial valuation. These certified contributions are calculated using assumptions made at each valuation and reflect, among other things, the return expected to be earned by the assets actually held by the Fund.

The **current service cost** in FRS102/IAS19 only includes the cost of benefits being earned by current employees and does not include the cost of paying off any past service deficit. The assumptions used for FRS102/IAS19 are usually different to those used for the triennial valuation. In particular, the **discount rate** is prescribed by FRS102/IAS19 and is unlikely to reflect the Fund's actual asset allocation. This means the **current service cost** calculated for FRS102/IAS19 is likely to be different to the cost covered by the certified minimum contributions.

In comparison, the employee contributions should be the same under the triennial valuation and the accounting valuation as these are set as a fixed rate of payroll.

What if the reported contributions paid are different to the actual contributions paid?

The discrepancy may be because cashflows for less than the full twelve months were provided in order to enable us to produce figures in the timescales required. This discrepancy could potentially affect almost every figure in the disclosures. We can revise the disclosure to take account of the actual contributions paid but we recommend that you agree with your auditor that this is necessary on the grounds of materiality. Generally, we would only expect the auditor to require this where the difference is relatively large or is because of significant strain on fund contributions being paid.

Gains and losses

What is an experience gain or loss?

The first accounting report prepared following a triennial valuation includes an experience item. Accounting reports are prepared each year using a number of estimates and approximations in the roll-forward process on both the assets and the liabilities. This experience adjustment is essentially a correction of the estimates made in the previous accounting reports leading up to the triennial valuation.

What does actual less expected return on Fund assets mean?

This figure looks at how the assets at the start of the accounting period have changed before allowing for the experience adjustment. After taking off the expected return on assets figure (or interest on assets figure) you are left with the actual less expected return on Fund assets. This will generally be equal to the actuarial loss or gain on fund assets in a non-valuation year.

Why is there an experience gain or loss on the assets?

To determine the employer asset share for an accounting report we are provided with cashflows e.g. contributions received and benefits paid and a total Fund value. These cashflows may only be for part of the accounting year, and the total Fund value may be at a date earlier than the accounting date. This total Fund value will not be a fully audited number and is unlikely to be exactly accurate. We pro rata the cashflows if necessary to get full year numbers, and roll forward the assets with market returns to get an estimate of the asset value as at the accounting date.

However, at a triennial valuation we do get full cashflow data for each intervaluation year and actual audited Fund asset values. We then determine each employer's asset share accurately at the triennial valuation date and the experience item emerges as the difference between the three years' worth of estimated rolled-forward assets and the accurate figure. At the triennial valuation we may also adjust employer assets if necessary to take into account any transfers or outsourcings that may not have been resolved in time to be included in the relevant accounting years.

Why is there an experience gain or loss on the liabilities?

To determine the value of the employer liabilities for an accounting report we roll forward the value of the liability calculated for the most recent valuation assuming that the experience of the members has been in line with the assumptions set out in the valuation. For example, at each valuation we make an assumption about the future mortality of the members and the rate at which their salaries increase and in the roll-forward process we continue to assume that these mortality assumptions are borne out in practice i.e. members die when they were assumed to and salaries increase at the rate they were assumed to.

At each triennial valuation we recalculate the liabilities for each employer using up to date membership data and assumptions. An experience item emerges as the difference between the actual experience of the members of the Fund, and the experience that had been assumed for them in the previous accounting reports. For example, if members die earlier than assumed or the employer increases salaries at a rate lower than assumed this will result in an **actuarial gain** as the liabilities will have reduced. On the other hand, if the pensions are increased at a higher rate than assumed, this will result in an actuarial loss.

Therefore, it is highly unlikely that your experience item would be zero following the completion of a triennial valuation.

What is the change in assumptions?

This shows the impact on the value of the liabilities of any changes in the financial and **demographic assumptions** since the previous accounting date. The financial assumptions are updated every year to allow for changes in market conditions. **Demographic assumptions** are generally updated once every three years during the triennial actuarial valuations of the Fund although some changes may be allowed for annually if it is considered material or if requested.

REPORT TO:	**AUDIT COMMITTEE**	**DATE**: **21st March 2016**
HEADING:	**ACCOUNTING POLICIES 2015-16 AND OTHER STATEMENT OF ACCOUNTS MATTERS**	
PORTFOLIO HOLDER:	N/A	

KEY DECISION: **NO** **SUBJECT TO CALL-IN:** **NO**

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1. PURPOSE OF REPORT

This report requests approval by the Audit Committee of the accounting policies that the Council proposes to adopt for the current financial year in the preparation of the Statement of Accounts 2015/16.

The report also outlines the impact of changes to the Accounts and Audit Regulations on the production of the 2015/16 Statement of Accounts process.

2. RECOMMENDATION

It is recommended that:-

1) the Audit Committee approve the Accounting Policies detailed at Appendix A to this report.
2) Members are requested to note that any proposed amendments or changes to these policies and associated relevant financial implications will be reported back to this Committee.

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3. REASON FOR RECOMMENDATION

To comply with statutory and constitutional requirements.

4. ALTERNATIVE OPTIONS CONSIDERED (with reasons why not adopted)

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. The preparation and consideration of this report is part of a process intended to ensure that alternative options are given appropriate consideration.

5. BACKGROUND

Introduction

5.1 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 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).

5.2 The approval of the Accounting Policies to be applied by the Council demonstrates that due consideration has been given to the 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. .

Accounting Policies

5.3 Officers have assessed the Accounting Policies that are considered necessary to explain clearly and underpin the accounting treatment of transactions within the Council's Statement of Accounts for 2015/16.

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 2015/16 there has been a limited number of minor changes which are seeking to clarify the policies, however, there have been no significant amendments from the policies adopted in respect of 2014/15.

5.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) intend to issue an accounting Bulletin giving further guidance on matters for the production of the Statement of Accounts. At the time of going to press, this guidance hadn't been issued but will be taken into account when producing the statements.

5.5 CIPFA/LASAAC have confirmed that transport infrastructure assets owned by Local Authorities will be required to be included in the accounts from 2016/17. This would require prior period adjustments for 2015/16, including the opening position at 1st April 2015. This requirement is referenced within KPMG's Technical Update document.

5.6 In 2015 the Council collated a list of all assets which may be considered to be Transport Infrastructure Assets. This list included various walkways, footpaths, streetlamps and unadopted roads. The vast majority of these assets are connected to the various housing courts the Council own throughout the District.

5.7 The Council's approach for valuing these assets i.e. taking a representative sample of the assets and applying this sample to all assets within that category, was sent to the Highways Asset Management Financial Information Group (HAMFIG) who confirmed the council's valuation approach was correct.

Through various CIPFA workshops attended it has been established that to be treated as a Highways Network Asset an asset needs to be “a network and grouping of inalienable components, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use.” The assets that are owned by the Authority are not networked and therefore are not classed as Highways Network Assets.

The Internal Valuer has confirmed that the value of the walkways, footpaths, streetlamps and unadopted roads is included in the valuation of the Housing Courts owned by the Council and any remaining assets would have an immaterial value.

The Council will therefore not have any relevant assets for inclusion in the 2015/16 Statement of Accounts or subsequent statements, unless there is a change in requirements.

Accounts and Audit Regulations 2015

5.8 The main changes to the production of the statements as a result of the Accounts and Audit Regulations 2015 are outlined below with the Council’s intended action:-

1) The requirement to replace the Explanatory Foreword with a Narrative Statement. The Statement must include comment by the Council on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

   Officers have already reviewed the update to the CIPFA Accounting Code of Practice on this matter and plan to ensure compliance.

2) The requirement for the draft accounts to be available for audit inspection 30 working days after which the obligations in terms of accounts production have been fulfilled.

   The Council will ensure that these requirements are fulfilled. Commencement is likely to be the day when the papers for Audit Committee are circulated but this will be confirmed at a later date.

IMPLICATIONS:

1. Corporate Plan:

Production of timely and accurate Statement of Accounts is a statutory requirement. Achievement of this reflects sound financial management supporting the Corporate Plan.

2. Legal:

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 report also demonstrates how compliance with the Accounts and Audit Regulations is to be achieved.

3. **Financial:**
The report outlines the policies to be adopted for production of timely and accurate accounts and demonstrates consideration of other legal and accounting issues attributable to their production.

4. **Health and Well-Being / Environmental Management and Sustainability:**
The findings of this report have no direct impact on the Council's environment or sustainability.

5. **Human Resources:**
There are no HR implications.

6. **Diversity/Equality:**
There are no diversity or equality issues relevant to this report.

7. **Community Safety:**
With reference to Section 17, Crime and Disorder Act 1998 (as amended) there are no crime and disorder implications contained within this report

8. **Other Implications:**
None

REASON(S) FOR URGENCY
N/A

EXEMPT REPORT
N/A

BACKGROUND PAPERS
None
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APPENDIX A

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2015/16 and its position at the year-end 31st March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise of the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16 supported by International Financial Reporting Standards (IFRS).

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

2. 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 risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the 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 respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

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

3. 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 one working day.

Cash Equivalents are short term investments that are of a highly liquid nature. The Council has deemed that deposits held within call accounts are categorised as Cash Equivalents unless they are held as part of the Council's investment strategy in which case they are treated as short term investments.

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

4. Exceptional Items

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

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

6. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real 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 Reserves against which the losses can be written off.
- Amortisation of intangible 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 provision from revenue to contribute 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, impairment losses and amortisation are therefore replaced by the 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.

7. Employee Benefits

a. Benefits payable During Employment

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

b. 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 Non Distributed Costs line in the Comprehensive Income and Expenditure Statement 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 the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

c. Post Employment Benefits

Most employees of the Council contribute to the Nottinghamshire Pension Fund, the Local Government Pension Scheme administered by Nottinghamshire County Council.

The scheme provides defined benefits (retirement lump sums and pensions) earned as employees work for the Council.

The Nottinghamshire Pension Fund is accounted for as a defined benefit scheme:

- The liabilities of the Scheme 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 including mortality rates, employee turnover rates and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices using a discount rate based on an appropriate rate of return on high quality corporate bonds.

- The assets of the Fund attributable to the Council are included in the Balance Sheet at their fair value.

    a) Quoted securities – current bid price
    b) Unquoted securities – professional estimate
    c) Unitised securities – current bid price
    d) Property – market value

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

- Service Cost comprising

    a) Current Service Cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Account to the services for which the employees worked
    b) Past Service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Account as part of Non-Distributed Costs
    c) Net interest on the net defined liability (asset), i.e. the net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

    d) Remeasurement comprising:

        - the return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
        - actuarial gains and losses - changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their

assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure .

e) Contributions paid to the Fund - Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the 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 to the fund but unpaid at the year-end.

The negative balance that arises on the Pensions reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

- **Discretionary Benefits**

  The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. 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.

8. Events after the Reporting Period

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

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. For the purposes of consideration, Post Balance Sheet events can occur up to approval of the Statements by the Audit Committee.

9. Financial Instruments

a. 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 interest rate of interest for each instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally borrowed

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); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Borrowing

Borrowing is classed as either a long-term liability, if it is repayable after 12 months or longer, or a current liability, if it is repayable within 12 months. Borrowing is shown in the Balance Sheet at amortised cost, using the effective interest rate that applies to the individual loans that comprise the total borrowing held by the Council, plus where appropriate, the amount of external interest accrued on loans where an effective interest calculation has not been made. This applies generally to outstanding PWLB loans, where the rate of interest on the loan does not vary over the life of the loan. Generally, the interest that is charged to the Comprehensive Income and Expenditure Statement financing section is the amount due in the year under the loan agreement, except where this is adjusted under effective interest rate calculations to meet the requirements of the 2015/16 Code.

Gains and Losses on Debt Re-structuring

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

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

b. Financial Assets

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the 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.

Investments are classed as either long-term assets, if repayable after 12 months or longer, or current assets, if repayable within 12 months. Investments are shown in the Balance Sheet at amortised cost, using the effective interest rate that applies to the individual loans that comprise the total borrowing held by the Council. The amount shown in the Balance Sheet represents the outstanding principal due to be repaid to the Council and the interest that is credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year under the loan agreement.

10. 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. 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.

<u>Non-specific Grants</u>

These are general grants allocated by central government directly to local authorities as additional revenue funding. They are non-ring fenced and are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. Examples include New Homes Bonus and Council Tax Freeze Grant.

11. Intangible Assets

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

These assets are held at cost and written off over their economic lives to the relevant service lines within the Comprehensive Income and Expenditure Statement. Where there is an indication that the asset is impaired any loss recognised will also be charged to the relevant service. Software development costs that are directly attributable to bringing a computer system or other computer operated machinery into use are treated as being of the cost of the related hardware, rather than as a separate intangible asset. During 2015/16 no assets met the ‘Intangible Assets’ definition.

12. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council’s own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

(a) <u>Joint Crematorium Committee</u>

The Council is a constituent member of a joint crematorium committee with neighbouring authorities of Mansfield and Newark and Sherwood District Councils. Current activities are split between all the councils based on the number of residents of each district area cremated. The balance sheet is apportioned based on an average of the last 5 years’ cremations from each area. The Council’s share of running costs and income has been included in the Comprehensive Income and Expenditure Statement and the share of assets included within the Balance Sheet using these apportionments. Due to the nature of the relationship of the Council within the committee Group Accounts are not required for this entity. Information on the Council’s share of the income and expenditure and associated assets and liabilities is shown in note 39 to the Core Financial Statements.

(b) Ashfield Homes Limited

The Council has a 100% interest in Ashfield Homes Limited through the issues of a single £1 share. The Company was formed on 26th September 2001 to carry out the housing management function on behalf of the Council with effect from 1st April 2002. Group Accounts are prepared to include the activities of this company as it is fully controlled by the Council.

13. Inventories and Long Term Contracts

Inventories are included on the balance sheet at the lower of cost and net realisable value.

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

14. Investment Properties

Following the guidance of the International Accounting Standard 40 with regard to investment properties, it has been established the Council does not hold any properties for investment purposes, as the premises leased to third parties are primarily for job creation and economic development, not capital appreciation or rental growth.

15. Leases

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

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

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

a. Operating Leases

The Council as Lessee

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

The Council as Lessor

The Council does act in the capacity as lessor for the leases of land and properties it owns. Rents due under operating leases are accounted for on a straight line basis as they become due. Land and property leased under operating leases are held as non-current assets within the Balance Sheet and valued in accordance with appropriate valuation practices.

b. Finance Leases

The Council as Lessee

Plant and Equipment held under finance leases are recognised on the Balance Sheet at the lower of the fair value of the asset at the lease inception and the present value of the minimum lease payments. The value of the asset is matched by a liability to pay the finance lessor.

Lease payments are apportioned between a capital repayment to write down the finance lease liability, and a financing charge.

Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to the depreciation charge being applied over the lease term.

The Council is not required to raise Council tax to cover depreciation on leased assets. Rather, a prudent annual contribution is made from the revenue fund toward the cost of the capital investment. Adjusting transfers are made to the Capital Adjustment Account within the Movement in Reserves statement to reflect the difference between the two charges.

The Council as Lessor

The Council does not have any finance leases where it acts as lessor.

16. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used, the full cost of overheads and support services is shared between users in proportion to the benefits received with the exception of:

- Corporate and Democratic Core, which are costs relating to the Council’s status as a multi-functional democratic organisation;

- Non distributed costs which are the cost of discretionary benefits awarded to employees retiring early and any impairment losses chargeable on Assets Held for Sale.

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

17. Property, Plant and Equipment

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis are classed as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not extend the previously assessed standard of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Property, Plant and Equipment may also include assets held under finance leases, which have been capitalised and included in the Balance Sheet at a value reflecting the fair value of the asset.

A de-minimis asset value of £10,000 has been set and expenditure on new assets of less than this amount is charged to the service revenue account as a proxy for depreciation, unless the expenditure forms part of a larger scheme.

Measurement

Assets are initially measured at cost, which comprises all expenditure that is directly attributable to bringing an asset into working condition for its intended use. The Council does not capitalise borrowing costs incurred whilst assets are under construction Assets are then carried in the Balance Sheet using the following measurement bases:

Asset Category	**Basis of Valuation**
Property, Plant and Equipment	Fair value determined in the existing use of the asset
Dwellings	Fair value in the existing use value for social housing
Infrastructure, community assets and assets under construction	Depreciated historic cost once the asset becomes operational

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate for fair value. Where assets have a short useful life then depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued where there have been material changes in their value, but as a minimum every 5 years. The Council's housing stock is re-valued annually by applying an appropriate housing price index to a series of beacon values at the start of the financial year.

Increases in valuations are matched by a credit to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified they are accounted for by a debit to the Revaluation Reserve to the extent that an accumulated gain has been recorded against that asset; where there is no balance or an insufficient balance on the revaluation reserve for that asset the write down of the asset value is charged against the relevant service within the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Revaluations are recorded by individual asset. 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. Where there is an indication that there is a material impairment in the value of an asset when compared to the carrying value an impairment loss is recognised. The impairment loss is written down to the revaluation reserve to the extent that any balance for that asset is held within the revaluation reserve. Where there is no balance or an insufficient balance then the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than continued service use then it is reclassified as an asset held for sale. The asset is re-valued immediately before classification and then carried at the lower of this amount or fair value less costs of disposal. Where there is a subsequent decrease in the valuation determined on classification to Asset held for sale then a loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in the fair value of assets held for sale are only recognised to the extent that they reverse a previous loss recognised within the Comprehensive Income and Expenditure Statement. Depreciation is not charged on Assets Held for Sale.

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

Amounts received in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipt Reserve within the Movement in Reserves Statement.

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment over a period of their estimated useful lives; freehold land is determined to have an infinite economic life and is not depreciated, assets under construction are not depreciated until they become operational in providing services. Depreciation is calculated using the straight line method. Assets are depreciated over the estimated economic life of the asset which has been assessed as being the following periods:

Council dwellings	40 years
Other HRA assets	10 - 80 years
Other Buildings	10 - 80 years
Vehicles, plant and equipment	3 - 10 years
Infrastructure	10 - 40 years
Community Assets	20 years

Revaluation gains are also depreciated. The difference between the depreciation on the current value and that which would have been charged on the historic value is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

The Council allocates the costs of an individual asset to its various components to calculate depreciation charges where the value of the asset exceeds £500K and more than one individual component exceeds 20% of the asset value. The impact on depreciation charges for assets below the threshold is not considered material. The componentisation is based on the following elements of the asset:-

- Boilers, heating and plant systems
- Lifts
- Roofs
- Windows and doors

In terms of Council Dwellings, these assets are collectively valued in excess of £500K. However, when comparing the value of depreciation charged on a component basis compared to the current 40 year life straight-line methodology, the difference is not considered material. Council Dwellings are therefore not currently subject to componentisation but the policy is to be reviewed on an annual basis.

18. Heritage Assets

The Council's Heritage Assets held are Historical Monuments, Statues and Artwork. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However no depreciation is charged on Heritage Assets as they are deemed to have an indeterminate life and have a high residual value.

Historical Monuments

The Council has seven Cenotaphs that are located at various outside locations throughout the Council. These monuments are reported in the Balance Sheet on an average replacement cost basis which has been agreed following discussions with our internal valuer.

Statues and Artwork Collection

The collection includes Statues, Sculptures and Mosaics situated within the local town and village streets throughout the Council. The collection depicts the Council's mining and engineering history to ensure the knowledge, culture and understanding of our heritage is preserved for future generations. An artwork example would be The Flight of Fancy sculpture that represents the Rolls Royce Flying Bedstead thrust measuring machine that was developed to research the use of direct lift. These items are reported in the Balance Sheet on an historic cost basis or on an insurance valuation basis and were mainly purchased from grant funding.

Non Balance Sheet Items

The Council also holds a collection of items which are not recognised on the Balance Sheet as cost information is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. These items are believed to have a value of £10k or less. The majority of the collection is street mosaics, murals and sculptures purchased through grant funding or produced by the public art events. The Council has also received a number of donations including a Knitting machine and a Stocking machine dating back to the 18th and 19th century, both of which are believed to be fore runners to the Spinning Jenny. It is difficult to obtain a valuation on these two items as there is no comparable item that provides a market value. Most assets are located on public streets, in parks or on display within public council buildings. A few items are stored securely in the Council's Council Offices and not currently available for public viewing however ways of making these items more accessible are being developed.

Heritage Assets – General

Heritage Assets are reviewed by the Council for impairments such as where an item has suffered physical deterioration or breakage. Any impairment is measured and recognised within the Revaluation Reserve. The Council works closely with the Ashfield War Memorial Committee to preserve and maintain the local historical monuments. All other Heritage Assets are reviewed and maintained as required.

Disposal proceeds are disclosed separately in the notes to the financial statements and accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

19. Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

b. 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 Balance Sheet but disclosed in a note to the accounts.

c. 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 Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20. Reserves

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

The level of reserves and balances is reviewed annually to ensure they are appropriate. The General Fund Balance, Earmarked Reserve and Reserves arising from Capital Receipts together with Capital Grants Unapplied are deemed to be usable reserves in that they may be used to fund future expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments retirement benefits and employee benefits, these are termed unusable reserves and are not available to be used to fund future expenditure.

21. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Statement of Income and Expenditure in the year. Where the Council has decided 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 reverses out the amounts so that there is no impact on the level of council tax.

22. Value Added Tax

Value Added Tax (VAT) is excluded from all income and expenditure received and paid by the Council except where it is classed as irrecoverable by HM Revenue and Customs.

23. The Collection Fund

i) Council Tax

The Council includes its share of the accrued Council Tax due for the year within its Comprehensive Income and Expenditure Statement. The difference between this sum and the local precept for Council and parish activities is reversed through the General Fund Balance to ensure only the level of Council Tax required to pay for Council activities is credited to the General Fund in the year. The balance is taken to the Collection Fund Adjustment Account, within the Balance Sheet.

Amounts collected on behalf of the other preceptors of Nottinghamshire County Council, Nottinghamshire Police Authority and Nottinghamshire Fire Authority are treated as either debtors or creditors depending upon the respective share of the Collection Fund attributable to these bodies at 31st March.

ii) Business Rates

The Council includes its share of accrued Business Rates due for the year within its Comprehensive Income and Expenditure Statement. The difference between this sum and the forecast amount due to the Council is reversed through the General Fund Balance to ensure only the level of Business Rates required to pay for Council activities is credited to the General Fund in the year. The balance is taken to the Collection Fund Adjustment Account, within the Balance Sheet.

Amounts collected on behalf of the other partners of the pool (Central Government, Nottinghamshire County Council and Nottinghamshire Fire Authority are treated as either debtors or creditors depending upon the respective share of the Collection Fund attributable to these bodies at 31st March.

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