



Kim Webber B.Sc. M.Sc.  
Chief Executive  
52 Derby Street  
Ormskirk  
West Lancashire  
L39 2DF

Monday, 19 March 2018

**TO: COUNCILLORS P COTTERILL, R PENDLETON, T ALDRIDGE, T BLANE,  
I DAVIS, J GORDON, N HENNESSY, P HUDSON, J MEE,  
E POPE AND C WYNN**

Dear Councillor,

A meeting of the **AUDIT & GOVERNANCE COMMITTEE** will be held in the **CABINET/COMMITTEE ROOM - 52 DERBY STREET, ORMSKIRK L39 2DF** on **TUESDAY, 27 MARCH 2018** at **6.30 PM** at which your attendance is requested.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Kim Webber', written over a horizontal line.

Kim Webber  
Chief Executive

**AGENDA**  
**(Open to the Public)**

- 1. APOLOGIES**
- 2. MEMBERSHIP OF THE COMMITTEE**

To be apprised of any changes to the membership of the Committee in accordance with Council Procedure Rule 4.

- 3. DECLARATIONS OF INTEREST**

If a Member requires advice on Declarations of Interest, he/she is advised to contact the Borough Solicitor in advance of the meeting.

345 -  
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(For the assistance of members a checklist for use in considering their position on any particular item is included at the end of this agenda sheet).

- |            |  |              |
|------------|--|--------------|
| <b>4.</b>  | <b>PUBLIC SPEAKING</b>   | 347 -<br>350 |
|            | Residents of West Lancashire on giving notice, may address the meeting to make representations on any item on the agenda except where the public and press are to be excluded during consideration of the item. The deadline for submission is 5.00pm on Friday 23 March 2018.   |              |
| <b>5.</b>  | <b>MINUTES</b>   | 351 -<br>354 |
|            | To receive as a correct record the minutes of the last meeting of the Committee held on 30 January 2018.   |              |
| <b>6.</b>  | <b>GRANT THORNTON - PROGRESS REPORT AND SECTOR UPDATE</b>  | 355 -<br>372 |
|            | (To consider the report of the Borough Treasurer).   |              |
| <b>7.</b>  | <b>INTERNAL AUDIT ACTIVITIES - QUARTERLY UPDATE</b>  | 373 -<br>376 |
|            | (To consider the report of the Borough Treasurer).   |              |
| <b>8.</b>  | <b>PROPERTY SERVICES - ARRANGEMENTS RELATING TO THE ENGAGEMENT OF A CONTRACTOR</b>   | 377 -<br>386 |
|            | To consider the report of the Borough Treasurer.   |              |
| <b>9.</b>  | <b>INTERNAL AUDIT PLAN 2018/19</b>   | 387 -<br>392 |
|            | (To consider the report of the Borough Treasurer).   |              |
| <b>10.</b> | <b>RIPA ACT QUARTERLY MONITORING OF USE OF POWERS</b>  |              |
|            | Improved monitoring of activity under the Regulation of Investigatory Powers Act 2000 (RIPA) introduced by the relevant Code of Practice, recommends that Members receive reports from Officers at least quarterly on RIPA activity.<br>There is no relevant activity to report. |              |
| <b>11.</b> | <b>WORK PROGRAMME</b>  | 393 -<br>394 |

**We can provide this document, upon request, on audiotape, in large print, in Braille and in other languages.**

**FIRE EVACUATION PROCEDURE: Please see attached sheet.**

**MOBILE PHONES: These should be switched off or to 'silent' at all meetings.**

For further information, please contact:-  
Jill Ryan on 01695 585017  
Or email [jill.ryan@westlancs.gov.uk](mailto:jill.ryan@westlancs.gov.uk)

**FIRE EVACUATION PROCEDURE FOR:  
COUNCIL MEETINGS WHERE OFFICERS ARE PRESENT  
(52 DERBY STREET, ORMSKIRK)**

**PERSON IN CHARGE:** Most Senior Officer Present  
**ZONE WARDEN:** Member Services Officer / Lawyer  
**DOOR WARDEN(S)** Usher / Caretaker

**IF YOU DISCOVER A FIRE**

1. Operate the nearest **FIRE CALL POINT** by breaking the glass.
2. Attack the fire with the extinguishers provided only if you have been trained and it is safe to do so. **Do not** take risks.

**ON HEARING THE FIRE ALARM**

1. Leave the building via the **NEAREST SAFE EXIT**. **Do not stop** to collect personal belongings.
2. Proceed to the **ASSEMBLY POINT** on the car park and report your presence to the **PERSON IN CHARGE**.
3. **Do NOT** return to the premises until authorised to do so by the **PERSON IN CHARGE**.

**NOTES:**

Officers are required to direct all visitors regarding these procedures i.e. exit routes and place of assembly.

The only persons not required to report to the Assembly Point are the Door Wardens.

**CHECKLIST FOR PERSON IN CHARGE**

1. Advise other interested parties present that you are the person in charge in the event of an evacuation.
2. Make yourself familiar with the location of the fire escape routes and inform any interested parties of the escape routes.
3. Make yourself familiar with the location of the assembly point and inform any interested parties of that location.
4. Make yourself familiar with the location of the fire alarm and detection control panel.
5. Ensure that the zone warden and door wardens are aware of their roles and responsibilities.
6. Arrange for a register of attendance to be completed (if considered appropriate / practicable).

**IN THE EVENT OF A FIRE, OR THE FIRE ALARM BEING SOUNDED**

1. Ensure that the room in which the meeting is being held is cleared of all persons.
2. Evacuate via the nearest safe Fire Exit and proceed to the **ASSEMBLY POINT** in the car park.
3. Delegate a person at the **ASSEMBLY POINT** who will proceed to **HOME CARE LINK** in order to ensure that a back-up call is made to the **FIRE BRIGADE**.
4. Delegate another person to ensure that **DOOR WARDENS** have been posted outside the relevant Fire Exit Doors.

5. Ensure that the **ZONE WARDEN** has reported to you on the results of his checks, **i.e.** that the rooms in use have been cleared of all persons.
6. If an Attendance Register has been taken, take a **ROLL CALL**.
7. Report the results of these checks to the Fire and Rescue Service on arrival and inform them of the location of the **FIRE ALARM CONTROL PANEL**.
8. Authorise return to the building only when it is cleared to do so by the **FIRE AND RESCUE SERVICE OFFICER IN CHARGE**. Inform the **DOOR WARDENS** to allow re-entry to the building.

**NOTE:**

The Fire Alarm system will automatically call the Fire Brigade. The purpose of the 999 back-up call is to meet a requirement of the Fire Precautions Act to supplement the automatic call.

**CHECKLIST FOR ZONE WARDEN**

1. Carry out a physical check of the rooms being used for the meeting, including adjacent toilets, kitchen.
2. Ensure that **ALL PERSONS**, both officers and members of the public are made aware of the **FIRE ALERT**.
3. Ensure that **ALL PERSONS** evacuate **IMMEDIATELY**, in accordance with the **FIRE EVACUATION PROCEDURE**.
4. Proceed to the **ASSEMBLY POINT** and report to the **PERSON IN CHARGE** that the rooms within your control have been cleared.
5. Assist the **PERSON IN CHARGE** to discharge their duties.

It is desirable that the **ZONE WARDEN** should be an **OFFICER** who is normally based in this building and is familiar with the layout of the rooms to be checked.

**INSTRUCTIONS FOR DOOR WARDENS**

1. Stand outside the **FIRE EXIT DOOR(S)**
2. Keep the **FIRE EXIT DOOR SHUT**.
3. Ensure that **NO PERSON**, whether staff or public enters the building until **YOU** are told by the **PERSON IN CHARGE** that it is safe to do so.
4. If anyone attempts to enter the premises, report this to the **PERSON IN CHARGE**.
5. Do not leave the door **UNATTENDED**.





	This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to M's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to M's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

*"body in which the relevant person has a beneficial interest" means a firm in which the relevant person is a partner or a body corporate of which the relevant person is a director, or in the securities of which the relevant person has a beneficial interest; "director" includes a member of the committee of management of an industrial and provident society;*

*"land" excludes an easement, servitude, interest or right in or over land which does not carry with it a right for the relevant person (alone or jointly with another) to occupy the land or to receive income; "M" means a member of a relevant authority;*

*"member" includes a co-opted member; "relevant authority" means the authority of which M is a member;*

*"relevant period" means the period of 12 months ending with the day on which M gives notice to the Monitoring Officer of a DPI;*

*"relevant person" means M or M's spouse or civil partner, a person with whom M is living as husband or wife or a person with whom M is living as if they were civil partners;*

*"securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.*

**'non pecuniary interest'** means interests falling within the following descriptions:

- 10.1(1)(i) Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;
- (ii) Any body (a) exercising functions of a public nature; (b) directed to charitable purposes; or (c) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union), of which you are a member or in a position of general control or management;
- (iii) Any easement, servitude, interest or right in or over land which does not carry with it a right for you (alone or jointly with another) to occupy the land or to receive income.
- 10.2(2) A decision in relation to that business might reasonably be regarded as affecting your well-being or financial position or the well-being or financial position of a connected person to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward, as the case may be, affected by the decision.

**'a connected person'** means

- (a) a member of your family or any person with whom you have a close association, or
- (b) any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- (c) any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
- (d) any body of a type described in sub-paragraph 10.1(1)(i) or (ii).

**'body exercising functions of a public nature'** means

Regional and local development agencies, other government agencies, other Councils, public health bodies, council-owned companies exercising public functions, arms length management organisations carrying out housing functions on behalf of your authority, school governing bodies.

A Member with a personal interest who has made an executive decision in relation to that matter must ensure any written statement of that decision records the existence and nature of that interest.

**NB** Section 21(13) of the LGA 2000 overrides any Code provisions to oblige an executive member to attend an overview and scrutiny meeting to answer questions.





**REQUEST FOR PUBLIC SPEAKING AT MEETINGS**

**MEETING & DATE** .....

**NAME** .....

**ADDRESS** .....

Post Code .....

**PHONE** .....

**Email** .....

Please indicate if you will be in attendance at the meeting

**YES/NO\***  
\*delete as applicable

Note: This page will not be published.

(P.T.O.)



## **PUBLIC SPEAKING – PROTOCOL**

### **(For meetings of Cabinet, Overview & Scrutiny Committees, Audit & Governance Committee and Standards Committee)**

#### **1.0 Public Speaking**

- 1.1 Residents of West Lancashire may, on giving notice, address any of the above meetings to make representations on any item on the agenda for those meetings, except where the public and press are to be excluded from the meeting during consideration of the item.
- 1.2 The form attached as an Appendix to this Protocol should be used for submitting requests.

#### **2.0 Deadline for submission**

- 2.1 The prescribed form should be received by Member Services by 10.00 am on the Friday of the week preceding the meeting. This can be submitted by e-mail to [member.services@westlancs.gov.uk](mailto:member.services@westlancs.gov.uk) or by sending to:

Member Services  
West Lancashire Borough Council  
52 Derby Street  
Ormskirk  
West Lancashire  
L39 2DF

- 2.2 Completed forms will be collated by Member Services and circulated via e-mail to relevant Members and officers and published on the Council website via Modgov. Only the name of the resident and details of the issue to be raised will be published.
- 2.3 Groups of persons with similar views should elect a spokesperson to speak on their behalf to avoid undue repetition of similar points. Spokespersons should identify in writing on whose behalf they are speaking.

#### **3.0 Scope**

- 3.1 Any matters raised must be relevant to an item on the agenda for the meeting.
- 3.2 The Borough Solicitor may reject a submission if it:
- (i) is defamatory, frivolous or offensive;
  - (ii) is substantially the same as representations which have already been submitted at a previous meeting; or
  - (iii) discloses or requires the disclosure of confidential or exempt information.

#### **4.0 Number of items**

- 4.1 A maximum of one form per resident will be accepted for each Agenda Item.
- 4.2 There will be a maximum of 10 speakers per meeting. Where there are more than 10 forms submitted by residents, the Borough Solicitor will prioritise the list of those allowed to speak. This will be considered having regard to all relevant matters including:
  - a. The order in which forms were received.
  - b. If one resident has asked to speak on a number of items, priority will be given to other residents who also wish to speak
  - c. Whether a request has been submitted in relation to the same issue.
- 4.3 All submissions will be circulated to Members of the relevant body and officers for information, although no amendments will be made to the list of speakers once it has been compiled (regardless of withdrawal of a request to speak).

#### **5.0 At the Meeting**

- 5.1 Speakers will be shown to their seats. At the commencement of consideration of each agenda item the Leader/Chairman will invite members of the public to make their representations. Residents will have up to 3 minutes to address the meeting. The address must reflect the issue included on the prescribed form submitted in advance.
- 5.2 Members may discuss what the speaker has said along with all other information, when all public speakers on that item have finished and will then make a decision. Speakers should not circulate any supporting documentation at the meeting and should not enter into a debate with Councillors.
- 5.4 If residents feel nervous or uncomfortable speaking in public, then they can ask someone else to do it for them. They can also bring an interpreter if they need one. They should be aware there may be others speaking as well.
- 5.5 Speakers may leave the meeting at any time, taking care not to disturb the meeting.

(Please see attached form.)

# Agenda Item 5

## AUDIT & GOVERNANCE COMMITTEE

**HELD:** Tuesday, 30 January 2018

Start: 6.30 p.m.

Finish: 7.05 p.m.

### PRESENT:

Councillor: P Cotterill (Chairman)  
R Pendleton (Vice-Chairman)

Councillors: T Blane I Davis  
J Gordon N Hennessy  
J Mee C Wynn

Officers: Borough Treasurer (Mr M Taylor)  
Borough Solicitor (Mr T Broderick)  
Audit Manager (Mr M Coysh)  
Member Services/Civic Support Officer (Mrs J A Ryan)

In attendance: Andrew Smith – (Grant Thornton)

### 24 APOLOGIES

There were no apologies for absence received.

The Chairman welcomed Andrew Smith from Grant Thornton's (External Auditors) to his first Audit and Governance Committee.

### 25 MEMBERSHIP OF THE COMMITTEE

There were no changes to the membership of the Committee.

### 26 DECLARATIONS OF INTEREST

There were no declarations of interest.

### 27 PUBLIC SPEAKING

There were no items under this heading.

### 28 MINUTES

RESOLVED: That the minutes of the meeting held on the 5 September 2017 be approved as a correct record and signed by the Chairman.

### 29 GRANT THORNTON ANNUAL AUDIT LETTER

Consideration was given to the report of the Borough Treasurer as circulated and contained on pages 265 to 279 of the Book of Reports including as an Appendix Grant Thornton's (External Auditors) Annual Audit Letter for the year ended 31 March 2017.

The Chairman invited Andrew Smith (Grant Thornton) to introduce the Annual Audit Letter.

**RESOLVED:** That the Grant Thornton Annual Audit Letter for the year ended 31 March 2017 be noted.

30 **GRANT THORNTON - CERTIFICATION LETTER**

Consideration was given to the report of the Borough Treasurer as circulated and contained on pages 281 to 286 of the Book of Reports that introduced the Certification Letter for the year ended 31 March 2017, produced by Grant Thornton (External Auditors) and attached as an Appendix.

The Chairman invited Andrew Smith (Grant Thornton) to present the Certification Letter to the Committee.

**RESOLVED:** That the Grant Thornton Certification Letter be noted.

31 **GRANT THORNTON - PROGRESS REPORT AND SECTOR UPDATE**

Consideration was given to the report of the Borough Treasurer, contained on pages 287 to 303 of the Book of Reports, which detailed Grant Thornton's (External Auditors) Progress Report and Sector Update, which was attached as an Appendix.

**RESOLVED:** That the Grant Thornton Progress Report and Sector Update be noted.

32 **GRANT THORNTON EXTERNAL AUDIT PLAN**

Consideration was given to the report of the Borough Treasurer, contained on pages 305 to 321 of the Book of Reports that introduced the External Audit Plan for the year ending 31 March 2017, produced by Grant Thornton (External Auditors) and which was attached as an Appendix.

The Chairman invited Andrew Smith (Grant Thornton) to present the External Audit Plan to the Committee.

**RESOLVED:** The Grant Thornton External Audit Plan be noted.

33 **INTERNAL AUDIT ACTIVITY - QUARTERLY UPDATE**

Consideration was given to the report of the Borough Treasurer as circulated and contained on pages 323 to 328 of the Book of Reports which advised of progress against the 2017/18 Internal Audit Plan.

The Audit Manager reported that 66% of the items on the plan were in progress

compared to 62% for the same period in the previous year.

A Member asked whether there had been any significant impact to the Council on the introduction of Universal Credit and it was confirmed that there had been no significant impact to the Council at this time.

**RESOLVED:** That progress in the year to date be noted.

34 **RIPA ACT QUARTERLY MONITORING OF USE OF POWERS**

In relation to the quarterly monitoring of activity under the Regulation of Investigatory Powers 2000 (RIPA) the Borough Solicitor reported that there was no relevant activity to bring to the attention of the Committee.

**RESOLVED:** That the report be noted.

35 **RISK MANAGEMENT FRAMEWORK AND POLICY UPDATE**

The Borough Treasurer submitted a report, as circulated and contained on pages 329 to 343 of the Book of Reports, which set out details of the operation of the Risk Management Framework over the last 12 months, and recommended changes to the current Risk Management Policy, which are to be considered at a later meeting of Cabinet.

**RESOLVED (A)** That the continuing effective operation of the Risk Management Framework be noted.

**(B)** That the proposed amendments to the Risk Management Policy be endorsed.

36 **WORK PROGRAMME**

Consideration was given to the Committee's Work Programme as set out at page 343 of the Book of Reports.

**RESOLVED:** That the Work Programme be noted.

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- CHAIRMAN -







## AUDIT AND GOVERNANCE COMMITTEE:

27 March 2018

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**Report of:** Borough Treasurer

**Contact for further information:** Marc Taylor (Extn. 5092)  
(E-mail: [marc.taylor@westlancs.gov.uk](mailto:marc.taylor@westlancs.gov.uk))

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**SUBJECT: GRANT THORNTON - PROGRESS REPORT AND SECTOR UPDATE**

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Wards affected: Borough wide

### **1.0 PURPOSE OF THE REPORT**

1.1 To receive an update from our External Auditors on a range of different matters.

### **2.0 RECOMMENDATION**

2.1 That the progress report be considered and that any questions be raised with the Grant Thornton representatives who will be attending the meeting.

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### **3.0 BACKGROUND**

3.1 Our external auditors have asked for the document contained in the appendix to be included on the agenda for this meeting so that Members may give it due consideration.

### **4.0 PROGRESS REPORT**

4.1 The Grant Thornton progress report sets out their progress in delivering their responsibilities against their audit plan as well as a range of other matters.

4.2 Representatives of Grant Thornton will present this document at the Committee meeting and will be able to answer any questions that Members may have on its content.

## **5.0 SUSTAINABILITY IMPLICATIONS**

- 5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

## **6.0 RISK ASSESSMENT**

- 6.1 The work that our External Auditors undertake is an integral part of the Council's control framework and provides assurance to Members that the Council is operating effectively.
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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

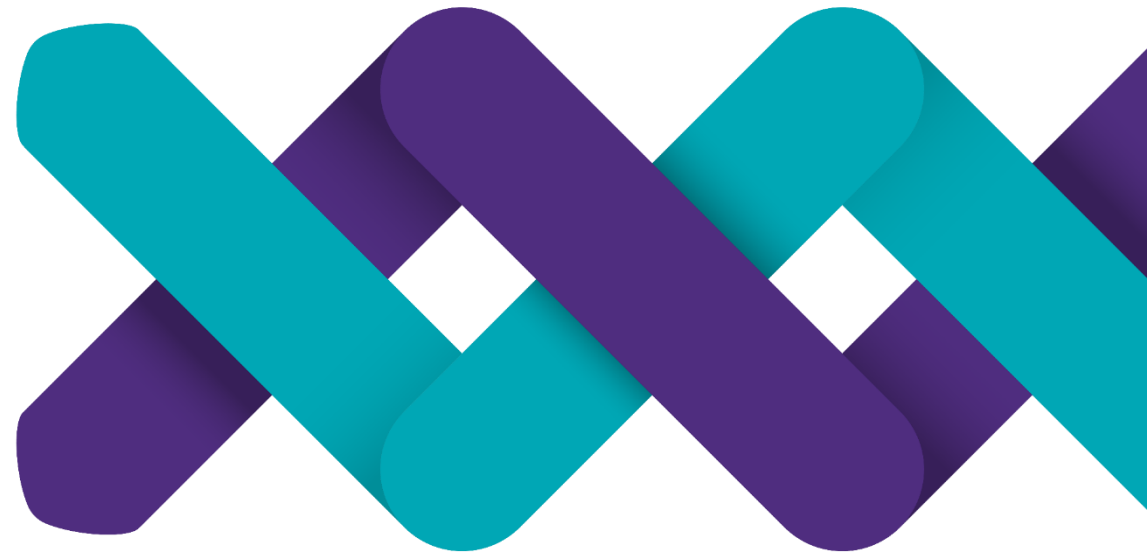
The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

Appendix – Grant Thornton - Progress Report and Sector Update

# Audit Progress Report and Sector Update

West Lancashire Borough Council  
Year ending 31 March 2018  
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March 2018



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# Introduction

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**Andrew Smith**

**Engagement Lead**

T 0161 953 6900

M 07960 214550

E [andrew.j.smith@uk.gt.com](mailto:andrew.j.smith@uk.gt.com)

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

**Georgia Jones**

**Engagement Manager**

T 0161 214 6383

M 07880 456165

E [georgia.s.jones@uk.gt.com](mailto:georgia.s.jones@uk.gt.com)

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

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

# Progress at March 2018

## Financial Statements Audit

We have completed planning for the 2017/18 financial statements audit and issued a detailed audit plan in January 2018, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in February 2018. Our interim fieldwork visit includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

At the time of writing our interim work is substantially complete. The findings from our interim audit work are summarised at pages 6 and 7.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin in June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

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

We made our initial risk assessment to determine our approach in January 2018 and reported this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

## Other areas

### Certification of claims and returns

The Council's annual Housing Benefit Subsidy claim requires certification in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in the certification letter.

### Meetings

We met with your Chief Executive and Borough Treasurer in January to discuss the Council's strategic priorities and plans as part of our quarterly liaison meetings, and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	January 2018	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit within our Progress Report.	March 2018	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2018	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements – journals, operating expenditure and property, plant and equipment. Our walkthrough of the payroll system is in progress at the time of writing.</p> <p>Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p>

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	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Journal entry controls</b>	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work to date has not identified any weaknesses which impact on our audit approach. At the financial statement audit we will complete substantive testing of journals to gain further assurance.
<b>Early substantive testing</b>	At the time of writing we are in the process of completing our early testing around property additions in the year and analytical review of payroll costs.	We will report the results of this early work to the Audit and Governance Committee once it is complete.

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# Financial sustainability of local authorities 2018

This National Audit Office report reviews financial sustainability across Local Government and examines whether the MHCLG, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

The report concludes that current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014, when the NAO last looked at financial sustainability. It also notes that the financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The NAO's view is that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the 2014 review. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams.

Key findings include:

Financial resilience varies between authorities, with some having substantially lower reserves levels than others. Levels of total reserves in social care authorities as a whole are higher now than in 2010-11. However, there is variation in individual authorities' ability to build up their reserves and differences in the rate at which they have begun to draw them down. Some 10.6% of single-tier and county councils would have the equivalent of less than three years' worth of total reserves (earmarked and unallocated combined) left if they continued to use their reserves at the rate they did in 2016-17.

A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year. In February 2018, the statutory financial officer for Northamptonshire County Council issued a section 114 notice, indicating that it was at risk of spending more in the financial year than the resources it has available, which would be unlawful.

MHCLG's work to assess the sector's funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review. The Department's advice to ministers in 2015 drew on a more comprehensive evidence base, including data returns from 12 departments.

The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities. In 2016-17, the Department offered a four-year settlement to all authorities to enable better financial planning. However, there have been many changes to funding streams outside this core offer. The funding landscape following the 2015 Spending Review has been characterised by one-off and short-term funding initiatives.

There is also uncertainty over the long-term financial plan for the sector. The absolute scale of future funding is unknown until the completion of the next Spending Review. The government has confirmed its intention to implement the results of the Fair Funding Review in 2020-21 and to allow local authorities to retain 75% of business rates. However, the implications of these changes are not yet clear.

There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services.

**49.1%**

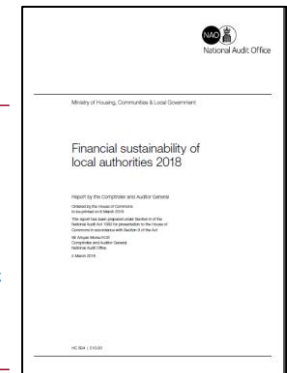
real-terms reduction in government funding for local authorities, 2010-11 to 2017-18

**28.6%**

real-terms reduction in local authorities' spending power (government funding plus council tax), 2010-11 to 2017-18

**1**

number of authorities since 2010-11 where a section 114 notice has been issued that indicates they are at risk of spending more than the resources they have available



# Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

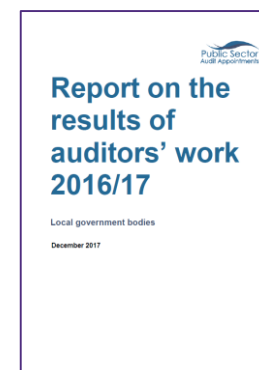
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



# Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

## Statutory Guidance on Local Authority Investments

**Transparency and democratic accountability** – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

**Principle of contribution** – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

**Introduction of a concept of proportionality** – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

**Borrowing in advance of need** – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

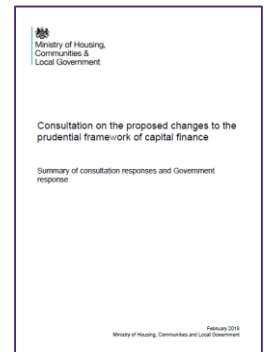
## Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

**Meaning of a charge to the revenue account** – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

**Impact of changing methods of calculating MRP** – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

**Introduction of a maximum economic life of assets** – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



## Changes to capital finance framework

### Challenge question:

Has your Borough Treasurer briefed members on the impact of the changes to the prudential framework of capital finance?

# CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

The Code is available in hard copy and online.

## CIPFA Publication

### Challenge question:

Has your Borough Treasurer briefed members on the impact of the changes to the prudential code?





# Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

## Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



## Grant Thornton Publication

### Challenge question:

Is your Authority considering the risks and governance issues for its commercialisation agenda?



# Supply Chain Insights tool helps support supply chain assurance in public services

## Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



### The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

## Supply Chain Insights

Grant Thornton

### Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?





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# Links

## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

<http://supplychaininsights.grantthornton.co.uk/>

## PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## HMCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

## CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

## National Audit Office link

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>





## AGENDA ITEM:

**AUDIT AND GOVERNANCE COMMITTEE:**

**27 March 2018**

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**Report of: Borough Treasurer**

**Contact for further information: Mr M.Coysh (Extn. 2603)  
(E-mail: [mike.coysh@westlancs.gov.uk](mailto:mike.coysh@westlancs.gov.uk))**

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**SUBJECT: INTERNAL AUDIT ACTIVITY – QUARTERLY UPDATE**

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Wards affected: Borough wide

### **1.0 PURPOSE OF THE REPORT**

1.1 To advise of progress against the 2017/18 Internal Audit Plan.

### **2.0 RECOMMENDATION**

2.1 That Members note progress in the year to date.

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### **3.0 BACKGROUND**

3.1 This Committee approved the 2017/18 Internal Audit Plan and the Internal Audit Manager brings written updates on progress against it to each meeting of this Committee.

3.2 This report summarises progress to date. This work will inform the overall opinion in the Internal Audit Annual Report that will be presented to this Committee following the end of the financial year.

### **4.0 INTERNAL AUDIT ACTIVITY TO DATE**

4.1 An appendix summarising progress to date and any significant issues arising is attached and the Internal Audit Manager will attend the meeting to present the report should Members have any questions.

4.2 Progress against the plan to date with 83% of audits in progress or completed is an improvement over the same period in 2016/17 when it was 81%.

## **5.0 SUSTAINABILITY IMPLICATIONS**

5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

## **6.0 FINANCIAL AND RESOURCE IMPLICATIONS**

6.1 The financial and resource implications arising from activity identified in this report are included in existing budget provisions.

## **7.0 RISK ASSESSMENT**

7.1 This report summarises progress against Internal Audit's work programme to date. Internal Audit's work is a key source of assurance to this Committee that risks to the achievement of the Council's objectives are being properly managed.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

1. Internal Audit Quarterly Update.

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## INTERNAL AUDIT QUARTERLY UPDATE

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### 1.0 Summary of Progress against the 2017/18 plan.

- 1.1 Progress against the plan to date is an improvement over that of the previous year with 83% of assignments in progress or completed compared to 81% for the same period in 2016/17. The Audit Manager will provide a verbal update on the latest position at the meeting.

Title	Position
Cashiers	Work in progress
Creditors	Work in progress
Debtors	Work in progress
NNDR	Work complete
Council Tax	Work complete
Benefits	Work in progress
Housing Rents	Work complete
Treasury Management	Work complete
Contracts and Procurement	Work in progress
Accounting Controls	Work in progress
Payroll	Work in progress
Annual Governance Statement	Work not yet commenced
Performance Management	Work in progress
Customer Services	Work not yet commenced
ICT	Work in progress
Property Services – housing maintenance	Work in progress
Rent and Money Advice	Work not yet commenced
Leisure	Work not yet commenced
Homelessness	Work in progress
Disabled Facilities Grants	Work in progress
Refuse and Recyclables	Work in progress
Anti-fraud work	Work in progress
Money Laundering reporting Officer	Work in progress
National Fraud Initiative	Work in progress
<b>Summary</b>	
Work complete	4
Work in progress	16
Work not yet commenced	4
<b>Total</b>	<b>24</b>

### 2.0 Other matters of note.

#### 2.1 Property Services engagement of a contractor.

This the subject of a separate report on this agenda. Progress against the action plan will be reported back to each meeting of this Committee until it is complete.

## 2.2 Update on Management of Electronic Records

The Council's Annual Governance Statement approved by this Committee identified the management of electronic records as a significant governance issue for the Council in the light of the volume of information currently held on systems. It also made reference to the development of an action plan to improve governance in this area.

Current developments include:

- A new structure for storage and revised access permissions for the Council's network have been agreed in principle.
- The Data Access and Storage Governance Project Officer has agreed a pilot conversion to the new structure with one service and practical implementation of this is currently being arranged.
- Work is currently in progress on preparations to migrate two other services to the new structure.
- The Data Access and Storage Governance Project Officer is continuing to develop improved procedures for the governance of data storage and access.
- The Data Access and Storage Governance Project Officer has reported significant reductions in storage requirements in the areas targeted by action undertaken on the project to date.

In line with this Committee's resolution in June, a further report on the position will be presented to the next meeting in May.

Monitoring of the key risks associated with the project will continue through the Council's regular risk assessment process.

## 2.3 Update on review of conformance with Public Sector Internal Audit Standards (PSIAS)

There is a requirement for internal audit's conformance with the PSIAS to be externally assessed every five years. In February 2017 Council agreed budget provision to commission an assessment from an organisation providing such services on a commercial basis.

The Chartered Institute of Public Finance and Accountancy was engaged as the assessor to carry out the work.

The fieldwork for the review is now complete and the results of the assessment will be reported back to this Committee in due course.

## 3.0 **Conclusion**

- 3.1 Performance is improving further as the section's new structure beds in and on the basis of current progress is capable of satisfying the Council's duty under the Accounts and Audit Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. While there are a significant number of audits still in progress it is expected that these will largely be completed by the next Committee meeting. The service is in a position to be able to deliver adequate coverage in relation to the 2017/18 plan.



## AUDIT AND GOVERNANCE COMMITTEE:

27 March 2018

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**Report of: Borough Treasurer**

**Contact for further information: Mr M.Coysh (Extn. 2603)  
(E-mail: [mike.coysh@westlancs.gov.uk](mailto:mike.coysh@westlancs.gov.uk))**

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**SUBJECT: PROPERTY SERVICES ARRANGEMENTS RELATING TO THE  
ENGAGEMENT OF A CONTRACTOR.**

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Wards affected: Borough wide

### **1.0 PURPOSE OF THE REPORT**

1.1 To advise members of Audit and Governance Committee of matters relevant to their oversight of the Council's framework of control arising from an internal audit examination of property services arrangements with a contractor.

### **2.0 RECOMMENDATION**

2.1 That the actions agreed by management to strengthen controls on procurement, payments, accountability, transparency and custody of documents following internal audit's examination of property services use of a contractor be noted.

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### **3.0 BACKGROUND**

3.1 This Committee's terms of reference include monitoring of Contract Procedure Rules and Financial Regulations in so far as they contribute to the effectiveness of the Council's internal controls. This includes consideration of the Council's compliance with its own and other published standards and controls in so far as these contribute to the adequacy of its framework of internal control.

3.2 They also permit consideration of matters arising from internal audit work where requested by the Audit Manager.

3.3 Members are asked to consider the report at appendix 1 arising from internal audit's examination of property services' engagement with a contractor which summarises matters relevant to this Committee's responsibilities.

- 3.4 Other activity arising from the examination which are not within the remit of this committee have been progressed through the appropriate channels in accordance with Council Policy in the usual way.
- 3.5 Progress against the action plan that has been put in place will be reported back to each future meeting of this committee until such time as it has been completed.
- 3.6 The Council's External Auditors have been briefed on the content of this report.

## **5.0 SUSTAINABILITY IMPLICATIONS**

- 5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

## **6.0 FINANCIAL AND RESOURCE IMPLICATIONS**

- 6.1 The financial and resource implications arising from activity identified in this report are included in existing budget provisions.

## **7.0 RISK ASSESSMENT**

- 7.1 This report summarises risks which internal audit work has identified as not being adequately addressed by the Council's existing framework of controls and measures proposed by management to address those risks for members information.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

1. Audit Manager's Report: Arrangements relating to property services engagement of a contractor.



## Report of the Audit Manager:

### **Arrangements relating to property services' engagement of a contractor (Valueworks).**

#### **1.0 Background**

- 1.1 When a contractor engaged on the capital works programme went into liquidation the Council submitted a claim to the administrators.
- 1.2 When the Council received its final distribution of funds, another company, Valueworks, requested settlement of an amount included in the claim on their behalf.
- 1.3 The officer dealing with the liquidation left and the officer newly responsible for processing this request approached the Audit Manager for advice.
- 1.4 During initial exploration of the matter it became evident that property services arrangement with Valueworks had a number of unusual features.
- 1.5 It was agreed with the Borough Treasurer and the Director of Housing and Inclusion that internal audit would examine this arrangement further.
- 1.6 During the course of the examination the arrangement with Valueworks has reached its specified end date and has not been renewed.

#### **2.0 General observations on records arising from the examination.**

- 2.1 It proved impossible to establish a comprehensive account of the procurement and commissioning process for the Council's arrangement with Valueworks due to a lack of adequate documentation.
- 2.2 The records of day to day transactions maintained by property services were also incomplete. After the arrangement had become operational only a fraction of the large volume of standard documents generated by this arrangement, mostly in electronic format, e.g. invoices submitted by Valueworks, were retained. Those documents that had been retained were found in unstructured groups in various locations with no proper arrangements established for their custody.
- 2.3 The arrangement entered into had not used established procedures to transact business with Valueworks.
- 2.4 Property Services had not initiated an acceptable alternative process incorporating adequate audit trails, in fact no alternative procedures had been documented.
- 2.5 Property Services had not sought approval for the alternative approach adopted as required by Financial Regulations.

### **3.0 Services commissioned from Valueworks.**

- 3.1 Valueworks provided services to a number of social landlords and offered a menu of services to clients (the company has since re-focused its activities under revised management).
- 3.2 While their service offerings included support for procurement, this option was not taken up by West Lancashire, the arrangement Property Services made with Valueworks mainly centred on the provision and ongoing maintenance and support of an e-marketplace software application and liaison with suppliers of materials used on the kitchen and bathroom contracts included in the capital programme.
- 3.3 The main deliverable was a system to administer the purchase-to-pay cycle for WLBC and their suppliers covering financial transactions – orders, delivery notes and invoices created within the e-marketplace system. A basic version of this was already achievable using our pre-existing housing management software.
- 3.4 The available evidence suggests that Valueworks performance was in accordance with the service specification outlined to the Council in their standard Terms and conditions as modified by the Council's choice of services.
- 3.5 Fees charged were in accordance with the rates specified in those terms and conditions.
- 3.6 No documented business case has been provided relating to the decision to bring Valueworks on board part way through the contract procurement process at West Lancashire.

### **4.0 Commissioning decision.**

- 4.1 A partial account of events surrounding the commissioning process has been constructed from correspondence gathered from various sources, supplemented from memory by various members of staff in property services and by contact with representatives of Valueworks. The narrative is incomplete and its accuracy cannot be fully verified.
- 4.2 In 2012/13, part way through the procurement process for contracts to fulfil the Capital Programme for Kitchen and Bathroom replacements, property services entered into an arrangement with Valueworks.
- 4.3 The documentation available does not clearly record precisely when the decision to incorporate the use of Valueworks into the procurement process was made or how or who by.

## **5.0 Procurement**

- 5.1 Valueworks fees from the start of the arrangement in 2013 up to January 2017 were approximately £382,160 net, £458,592 Gross.
- 5.2 Expenditure with Valueworks in relation to this engagement therefore exceeds the upper threshold in Contracts Procedure Rules (CPR) where tenders must be invited.
- 5.3 This level of expenditure exceeds the EU procurement threshold for Services Contracts. In 2016/17 this was £164,176 (this applies to all contracts which are neither “works” nor “supplies”). These thresholds are the total value of the contract over its full duration, excluding VAT.
- 5.4 No tender exercise was undertaken before entering into this arrangement.
- 5.5 While payments appear to have been made in accordance with the arrangement entered into by property services no evidence has been provided to demonstrate that proper consideration was given to how this arrangement would secure value for money.

## **6.0 Use of alternative arrangements to make creditor payments to Valueworks.**

- 6.1 The process set up in property services to administer this arrangement was that Valueworks' fees would be collected through an arrangement with contractors and suppliers engaged on the kitchen and bathroom replacement programmes.
- 6.2 The process bypassed controls in the Council's regular corporate systems and no compensating controls were incorporated. Under this arrangement contractors were required to transfer part of the fee paid to them by the Council on to Valueworks. Consequently no payments were made direct from the Council to Valueworks.

## **7.0 Contract matters**

- 7.1 Valueworks sent a copy of their standard terms and conditions modified to reflect their engagement with WLBC to Property Services as an e-mail attachment 28/2/2013.
- 7.2 Valueworks requested return of a signed copy of this agreement (contract) on more than one occasion.
- 7.3 A later e-mail dated 30/4/13 proposed that in the absence of a signed agreement they would use these standard terms until such time as one was put in place.
- 7.4 The Council's Contract Procedure Rules require a signed contract to be in place for contracts of this value.
- 7.5 No signed contract has ever been in place for the Council's engagement of Valueworks.

## **8.0 Budget for the services provided under the agreement**

- 8.1 This engagement is not identified separately in the Capital Programme and no other explicit budget approval has been identified for this expenditure.
- 8.2 Capital expenditure is approved with the intention of acquiring or enhancing fixed assets with a long-term value to the Council.
- 8.3 Expenditure on the Valueworks arrangement has been coded to the Capital Programmes for replacement kitchens and bathrooms.

## **9.0 Failure to process invoices correctly**

- 9.1 Invoices have been submitted by Valueworks throughout their engagement. Those invoices have not been processed, authorised or paid by property services.
- 9.2 No arrangements were made for safe custody of these invoices by Property Services who were unable to produce a complete set for inspection (duplicate copies were provided by Valueworks on request).
- 9.3 The failure to secure invoices submitted by Valueworks contravenes the requirement in the Council's Retention and Disposal Schedule to retain invoices for 6 years after the conclusion of the financial transaction that they support.

## **10.0 Alternative Payment process.**

- 10.1 Payments have not been processed through the regular creditor payment process.
- 10.2 It was instead arranged between Property Services, Valueworks and the contractors that 2.5% would be added to all invoices for works and materials paid to the contractors and suppliers on the WLBC Kitchen and Bathroom Replacement Programme and passed on to Valueworks.
- 10.3 Valueworks net off payments received against the fees they charged to the Council.
- 10.4 While VAT has been processed at the correct overall value, property services did not establish viable processes for ensuring payment was only made where a VAT invoice had been received, checked, coded and certified for payment.
- 10.5 The payment arrangements in place are unclear and inadequate to ensure the treatment of invoices complied with official invoice processing instructions, Financial Regulations and HMRC requirements.
- 10.6 This alternative system has not been documented by Property Services.

## **11.0 Transparency and accountability**

- 11.1 As the Council's official financial creditor payments processes and systems have been bypassed these have not recorded any of the payments made to Valueworks and so these transactions will not be disclosed by any search of the Council's regular financial systems.
- 11.2 This expenditure would not be identified during regular sampling of the creditor system for audit testing.
- 11.3 The payments to Valueworks have not been explicitly identified separately anywhere in the accounting system.
- 11.4 This activity and expenditure would not be identified in response to any Freedom of Information request.
- 11.5 The arrangement has not been recorded on the Contracts Register which is verified against payments made through the creditor system.
- 11.6 The payments have not appeared in the published list of payments over £500 produced through the creditor system (a regulatory requirement).
- 11.7 Property Services did not comply with Financial Regulations by consulting with the Borough Treasurer and informing Internal Audit before introducing this alternative system which would not have met the basic requirements to gain approval.

## **12.0 Conclusions and Recommendations**

- 12.1 The procurement process for the engagement of Valueworks is not adequately documented.
- 12.2 The procurement process for the engagement of Valueworks did not comply with Contracts Procedure Rules and other purchasing requirements.
- 12.3 Financial regulations have not been complied with.
- 12.4 Transactions have not been adequately recorded.
- 12.5 The alternative arrangements were put into place without proper authority and without consultation with Financial Services.
- 12.6 No formal contract was put in place to secure adequate governance arrangements for the Council's use of Valueworks.
- 12.7 The Council's document retention rules have not been complied with.
- 12.8 The arrangements in place for this engagement did not meet the standards of transparency and accountability required by the Council in its business transactions.
- 12.9 To address this position an action plan has been agreed and put in place as shown below. Work to implement this action plan will be prioritised and regularly reported back to members.

## Action Plan

	<u>Issue</u>	<u>Action</u>	<u>Responsible</u>	<u>Timescale</u>
1.	Lack of adequate documentation of the procurement process.	Since the procurement process referred to in this report the Council has implemented an e-procurement system. The system records all steps in procurement exercises administered through it. Its use is now mandatory for all contracts over £50,000 under the Council's current Contracts Procedure Rules.	Procurement Executive	Complete
2.	Failure to comply with Contracts Procedure Rules and Financial Regulations and to record transactions adequately.	Non-compliance cannot be corrected retrospectively. Further training will be provided for staff in property services on the requirements of Contract Procedure Rules, Financial Regulations and in relation to transaction processing to clarify requirements for clearing invoices and to ensure that staff understand the conditions for exceptions to established creditor payment procedures.	Director of Housing and Inclusion	In progress
3.	Failure to seek authority to make changes to financial systems.	All staff to be reminded that changes should not be made to financial systems without consultation with internal audit (and where necessary the approval of the Borough Treasurer)	Borough Treasurer	30 <sup>th</sup> March 2018
4.	Absence of a signed agreement governing the arrangement.	Non-compliance cannot be corrected retrospectively. Internal Audit will carry out a review comparing property services expenditure over the threshold at which a contract is required to agreements held by legal services to evidence levels of compliance in other contracts.	Internal Audit Manager	30 <sup>th</sup> March 2018

5.	Non-compliance with Council's Document retention requirements.	A corporate programme of review and cataloguing of records is in progress. It has been agreed that Property Services will be included early in the programme to ensure appropriate document retention criteria are developed and implemented.	Information Asset Owners in consultation with Data Access and Storage Governance Project Officer	In progress
6.	Establish transparency and accountability in payment procedures adopted.	All officers authorising payments to be instructed that no invoices including "premium payments" to third parties are to be authorised and any presented for payment are to be referred immediately to the Internal Audit Manager	Borough Treasurer	30 <sup>th</sup> March 2018
7.	Issues relating to transparency and accountability due to alternative payment procedure adopted.	Internal Audit to carry out a programme of checks to identify whether this practice has been employed on any other existing contracts in property services.	Internal Audit Manager	30 <sup>th</sup> March 2018
8.	To establish that there are no other unauthorised amendments to established creditor payment procedures in use.	Examination by internal audit of payments made by property services through creditors (including the D100 process) to ensure these comply with corporate requirements.	Internal Audit Manager	30 <sup>th</sup> March 2018







## AGENDA ITEM:

**AUDIT AND GOVERNANCE COMMITTEE:**

**27 March 2018**

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**Report of: Borough Treasurer**

**Contact for further information: Mr M.Coysh (Extn. 2603)**  
**(E-mail: [mike.coysh@westlancs.gov.uk](mailto:mike.coysh@westlancs.gov.uk))**

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**SUBJECT: INTERNAL AUDIT PLAN 2018/19**

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Wards affected: Borough wide

### **1.0 PURPOSE OF THE REPORT**

1.1 To provide Members with the background to the preparation of the 2018/19 Internal Audit Plan and present it for approval.

### **2.0 RECOMMENDATION**

2.1 That the Internal Audit Plan 2018/19 attached at appendix 1 be approved to take effect from 1st April 2018.

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### **3.0 BACKGROUND**

3.1 The Public Sector Internal Audit Standards require the preparation of a risk based Internal Audit Plan.

3.2 The plan has been prepared taking into account the Council's objectives and considering local and national influences on risks to their achievement. It is designed to evaluate the effectiveness of, and promote improvement to, the risk management, control and governance processes the Council has in place.

3.3 The resulting programme of work will provide independent assurance to both management and this Committee in relation to the effectiveness of those processes in securing the Council's objectives.

3.4 The Audit Manager considers that the coverage proposed will support an adequate and effective internal audit of the Council's accounting records and system of internal control for the period in accordance with proper practice.

#### **4.0 SUSTAINABILITY IMPLICATIONS**

4.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

#### **5.0 FINANCIAL AND RESOURCE IMPLICATIONS**

5.1 There are no significant financial or resource implications arising from this report as Internal Audit activity is included in existing budget provisions.

#### **6.0 RISK ASSESSMENT**

6.1 Approval of the Internal Audit Plan is necessary to comply with the Council's statutory duty to undertake an adequate and effective internal audit of its accounting records and system of internal control in accordance with the Accounts and Audit Regulations 2015.

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#### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

#### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

#### **Appendices**

1. INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2018/19

## **Internal Audit Strategy and 2018-19 Annual Plan.**

### **The role of Internal Audit in providing assurance.**

The Council is required by the Accounts and Audit Regulations to undertake an effective internal audit of its risk management, control and governance processes taking into account public sector auditing standards or guidance. For 2018/19 those standards are defined in the Public Sector Internal Audit Standards (PSIAS).

Internal Audit help the Council to accomplish its objectives by evaluating and improving the effectiveness of its risk management, control and governance processes and provide independent, objective assurance to management and the Council on their effectiveness.

### **The Role of Audit and Governance Committee in relation to the Annual Governance Statement**

This Committee's terms of reference require it to review the production of the Authority's Annual Governance Statement, approve it and commend its signing to the Leader of the Council and Chief Executive.

In order to be able to do so this Committee needs to obtain sufficient assurance that the Council's internal control environment is operating effectively. It gains that assurance from a variety of sources including the work of internal audit.

### **Internal Audit Strategy**

This document sets out internal audit's strategy for delivering the annual opinion in accordance with statutory requirements. It provides the means by which internal audit link the work in the 2018-2019 Internal Audit Plan to the Council's priorities and focus it on key risks to their achievement.

The frequency and scope of audits is determined by known risks, adequacy of controls and the level of knowledge of the operation of each system.

Through the maintenance of a rolling programme, the Strategy ensures that all Council services are subject to audit over time.

The long term programme is also used to assess the resources available to Internal Audit against those required to provide adequate assurance in accordance with the PSIAS.

In order to ensure that the work plan is relevant, adequate and reliable, Internal Audit maintains oversight of the management of risks which the Council's governance, operations, and information systems are exposed to which could reasonably be expected to influence:

- Achievement of the Council's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programmes.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

Identifying significant emerging issues relies on horizon scanning through monitoring of corporate risk registers and service action plans, membership of various WLBC working groups, while national issues are identified through professional bodies, local audit fora etc and senior managers are consulted to obtain their views on issues relevant to their services.

### **The purpose of the Annual Audit Plan**

The PSIAS require the Audit Manager to deliver an annual internal audit opinion that can be used to inform the Council's Annual Governance Statement.

The work streams set out in the Internal Audit Plan approved by this Committee are the primary source of assurance upon which that opinion is based.

**West Lancashire Borough Council 2018 / 19 Internal Audit Plan**

KEY	Planned work relates to	Reliability and integrity of financial and operational information.	Effectiveness and efficiency of operations and programmes.	Safeguarding of assets.	Compliance with laws, regulations, policies, procedures, and contracts.	Achievement of a strategic priority - Ambitious for our Economy	Achievement of a strategic priority - Ambitious for our Environment	Achievement of a strategic priority - Ambitious for Health and Wellbeing	Priority	Planned days
	General Data Protection Regulations				√				H	20
	Contract Audit (Legal - Procurement)		√	√	√				H	20
	Off Street Parking	√	√	√	√	√	√		H	14
	Main Accounting	√							H	10
	Treasury Management	√	√	√	√				H	10
	Payroll	√	√	√	√				H	20
	Property Management	√	√	√	√		√	√	H	20
	ServiceNow	√	√		√				H	10
	Home Care Link	√	√		√			√	H	20
	Business Rates	√	√	√	√	√			H	15
	Sustainable Organisational Review		√						M	10
	Anti-fraud review	√		√	√				M	20
	Insurance		√	√	√				M	15
	Risk Management	√	√	√	√	√	√	√	M	20
	Sheltered housing		√					√	M	12
	Housing Rents	√	√	√	√				M	14
	Performance indicators	√	√			√	√	√	M	15
	ICT	√	√		√				M	15
	Benefits	√	√	√	√			√	M	15
	Creditors	√	√	√	√				M	12
	Debtors	√	√	√	√				M	12
	Cashiers - Income Management	√	√						M	10
	Council Tax	√	√	√	√				M	15
	Right to Buy Sales	√	√	√	√				M	12
	Caretaking	√	√	√	√		√		M	12
	Homefinder	√	√		√			√	L	12
	Commercial waste	√	√		√		√		L	10
	Civic bulky collections	√	√		√		√		L	8
	National Fraud Initiative			√	√				*	20
	Annual Governance Statement	√			√				*	2
	Money Laundering Reporting Officer				√				*	5
	Total									425

Items marked \* relate to work required by legislation which, while not audits, contribute to the overall level of assurance provided.

ServiceNow, Sustainable Organisation Review and Cashiers – Income Management relate to internal audit involvement in projects.



## Audit & Governance Committee Work Programme – 27 March 2018

Date	Training (commencing 6.00pm)	Items
29 May 2018	Pensions	<ol style="list-style-type: none"> <li>1. Grant Thornton – Progress Update</li> <li>2. Internal Audit Annual report</li> <li>3. Internal Audit Activities – Quarterly Update</li> <li>4. Annual Governance Statement</li> <li>5. Statement of Accounts</li> <li>6. RIPA Act Quarterly Monitoring of Use of Powers</li> <li>7. Local Code of Governance</li> <li>8. Anti Money Laundering Policy</li> <li>9. Anti-Fraud Bribery and Corruption Policy</li> </ol>
31 July 2018		<ol style="list-style-type: none"> <li>1. Grant Thornton – Progress Update</li> <li>2. Grant Thornton – Audit Findings Report</li> <li>3. Approval of Statement of Accounts</li> <li>4. Internal Audit Activities – Quarterly Update</li> <li>5. Regulation of Investigatory Powers (RIPA) Act - Annual Setting of the policy and review of use of powers</li> </ol>
30 October 2018		<ol style="list-style-type: none"> <li>1. Grant Thornton – Progress Report</li> <li>2. Internal Audit Activities – Quarterly Update</li> <li>3. RIPA Act quarterly monitoring of use of powers</li> <li>4. Grant Thornton Annual Audit Letter</li> <li>5. Grant Thornton Certification Letter</li> <li>6. Risk Management Framework</li> </ol>
29 January 2019		<ol style="list-style-type: none"> <li>1. Grant Thornton – Progress Update</li> <li>2. Local Code of Governance</li> <li>3. Internal Audit Activities – Quarterly Update</li> <li>4. Internal Audit Plan 2018/19</li> <li>5. RIPA Act quarterly monitoring of use of powers</li> <li>6. Anti Money Laundering Policy</li> <li>7. Anti-Fraud, Bribery &amp; Corruption Policy</li> <li>8. Management of Electronic Records</li> </ol>

