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The Chair and Members of Standards
and Audit Committee

18 July 2018

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 25 JULY 2018 at 2.00 pm in Committee Room 2, Town Hall, Rose Hill, Chesterfield, the agenda for which is set out below.

AGENDA

Part 1(Public Information)

1. Declarations of Members' and Officers' Interests relating to Items on the Agenda
2. Apologies for Absence
3. Minutes (Pages 3 - 10)

Minutes of the meetings of the Standards and Audit Committee held on 23 May and 6 June, 2018.

4. Local Government Act 1972 - Exclusion of Public

To move "That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act".

5. Verbal Update on Procurement

6. National Audit Office - Cyber Security and Information Risk Guidance for Audit Committees (Pages 11 - 52)
7. Local Government Act 1972 - Re-admission of Public

That after consideration of an item / items containing exempt information, the public be re-admitted to the meeting.
8. Summary of Internal Audit Reports Issued 2018/19 (Pages 53 - 90)
9. Internal Audit Charter (Pages 91 - 102)
10. Audit Report on the 2017/18 Statement of Accounts (Pages 103 - 248)
11. Risk Management Strategy and Annual Review (Pages 249 - 280)
12. Constitution Updates - Financial Limits (Pages 281 - 288)
13. Politically Restricted Posts (Pages 289 - 294)
14. Annual Self-Assessment of the Standards and Audit Committee / CIPFA's Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition (Pages 295 - 400)

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Randy', written in a cursive style.

Local Government and Regulatory Law Manager and Monitoring Officer

STANDARDS AND AUDIT COMMITTEE

Wednesday, 23rd May, 2018

Present:-

Councillor Rayner (Chair)

Councillors Caulfield
Derbyshire
Hollingworth

Councillors Tidd
Bean

*Matters dealt with under the Delegation Scheme

1 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS RELATING TO ITEMS ON THE AGENDA

No declarations were received.

2 APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Diouf.

3 MINUTES

RESOLVED –

The Minutes of the previous meeting of the Standards and Audit Committee held on 4 April, 2018 were approved and signed by the Chair as a correct record.

4 ANNUAL REPORT OF THE STANDARDS AND AUDIT COMMITTEE

The Chair of the Standards and Audit Committee, Internal Audit Consortium Manager and the Local Government and Regulatory Law Manager submitted the inaugural Annual Report of the Standards and Audit Committee, attached at Appendix 1 to the officer's report, which summarised the work carried out by the Committee during the financial year 2017/18.

It was noted that the Annual Report would be considered for approval by full Council on 18 July, 2018.

***RESOLVED –**

That the Annual Report of the Standards and Audit Committee for 2017/18 be noted and referred to full Council for approval.

5 INTERNAL AUDIT CONSORTIUM ANNUAL REPORT 2017/18

The Internal Audit Consortium Manager presented the Internal Audit Consortium Annual Report in respect of Chesterfield Borough Council for 2017/18.

The report provided a summary of the internal audit work undertaken during the year. Members were informed that 35 reports had been issued during the year; the breakdown of audit classifications was included in paragraph 3.1 of the officer's report.

Section 3 of the officer's report also provided detail on the issues to be considered for inclusion in the Annual Governance Statement, and a summary of progress made against the Internal Audit Action Plan.

***RESOLVED –**

That the report be noted.

6 SUMMARY OF INTERNAL AUDIT REPORTS ISSUED 2017/18

The Internal Audit Consortium Manager presented a report summarising the internal audit reports issued during the period 10 March 2018 to 13 April 2018, in respect of reports issued relating to the 2017/18 internal audit plan.

It was noted that 4 reports had been issued during this period and had been given the following levels of assurance:

- 'Substantial Assurance' – 1
- 'Reasonable Assurance' – 1
- 'Limited Assurance' – 1
- 'Inadequate Assurance' – 1

The Committee welcomed the Assistant Director - Policy and Communications to discuss the Limited Assurance audit report on 'Performance Management/Corporate Targets' issued on 13 April, 2018.

The Assistant Director – Policy and Communications referred members to the Implementation Schedule included within Appendix C of the officer's report, which confirmed that all recommendations had been accepted.

Members received a verbal update on how each recommendation had been addressed, including detail on the measures that had been put in place and the estimated timescales for completion.

The Committee thanked the Assistant Director – Policy and Communications for attending.

The Chair moved that under Regulation 21 (1)(b) of the Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2000, the public be excluded from the meeting for the following item of business to be discussed on the grounds that it involved the likely disclosure of exempt information as defined by Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972'.

The Internal Audit Consortium Manager provided a verbal update on behalf of the Assistant Director – Customers, Commissioning and Change, on the Inadequate Assurance report on 'Procurement' issued on 5 April, 2018.

It was noted that a group of staff involved with procurement processes across the Council had been tasked with developing an improvement plan to address the recommendations included within the internal audit report, and that a more detailed update on this could be provided at the next meeting of the Standard and Audit Committee.

The Chair moved that, following consideration of a report containing exempt information, the public be re-admitted to the meeting.

Members agreed that an Extraordinary Meeting of the Standards and Audit be held on 6 June, 2018 to provide members with more information on the actions being undertaken by the Council to resolve the outstanding issues raised in the internal audit report on procurement, as well as timescales for delivery.

*** RESOLVED –**

1. That the report be noted.
2. That an Extraordinary Meeting of the Standards and Audit Committee be arranged for 6 June, 2018.

7 REVIEW OF CODE OF CORPORATE GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

The Internal Audit Consortium Manager submitted a report to present Members with the Annual Governance Statement and associated Action Plan, and to review Council compliance with the Code of Corporate Governance during 2017/18.

The Annual Review of the Code of Corporate Governance, as attached at Appendix A to the officer's report, showed that compliance had largely been achieved in 2017/18, with areas of partial compliance addressed in the Annual Governance Statement Action Plan, as attached at Appendix D to the officer's report.

The Director of Finance and Resources proposed that the paragraph within the Internal Audit Opinion 2017/18 section of the Annual Governance Statement relating to limited and inadequate assurance reports be supplemented by the table set out in paragraph 3.1 of the Internal Audit Consortium Annual Report 2017/18, to give context for these conclusions and to better reflect the full audit picture.

The Director of Finance and Resources proposed the wording of the action stating that the "Council will consolidate its contracts registers to enable the register of contracts over £5,000 to be published on its website," to better reflect that the Council had existing contracts registers.

The Committee agreed to both proposed amendments of the Annual Governance Statement.

***RESOLVED –**

1. That, subject to the proposed amendments being made to the Annual Governance Statement, the Annual Governance Statement and Action Plan be approved.

2. That a review of the Code of Corporate Governance be undertaken in 12 months' time.
3. That progress on the Action Plan be monitored by the Corporate Management Team.

8 REVIEW OF UNREASONABLE COMPLAINTS POLICY

The Local Government and Regulatory Law Manager submitted a report recommending for approval proposed amendments to the Council's Policy and Procedure on the Management of Unreasonable Complaints or Customers.

The proposed changes to the policy were set out in paragraphs 5.3 and 5.4 of the officer's report.

***RESOLVED –**

1. That the report be noted.
2. That the Council's Policy and Procedure on the Management of Unreasonable Complaints or Customers be amended as per the proposed changes as set out in paragraphs 5.3 and 5.4 of the officer's report.

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STANDARDS AND AUDIT COMMITTEE

Wednesday, 6th June, 2018

Present:-

Councillor Rayner (Chair)

Councillors A Diouf
 Caulfield

Councillors Derbyshire
 Hollingworth

*Matters dealt with under the Delegation Scheme

9 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS RELATING TO ITEMS ON THE AGENDA

No declarations were received.

10 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bean and Tidd.

11 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC

RESOLVED –

That under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting of the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

12 PROCUREMENT

Following a request made by the Committee on 23 May, 2018 (Minute No. 6, Standards and Audit Committee 2018/19), the Chief Executive and Assistant Director – Customers, Commissioning and Change attended to provide members with a corporate response to the findings and recommendations presented in the internal audit report on procurement.

The Chief Executive thanked the Committee for taking a proactive stance following the report, and provided context.

It was noted that there had been progress on recommendations in the report, however, further steps were needed.

The Assistant Director – Customers, Commissioning and Change provided background and information on the detail of the Council's current procurement arrangements.

Members were informed of the Council's intent to provide training on procurement for managers in July.

The Assistant Director – Customers, Commissioning and Change confirmed that further updates would be provided at the next two meetings of the Standards and Audit Committee, and after that as required.

The Committee thanked the Chief Executive and Assistant Director – Customers, Commissioning and Change for attending.

RESOLVED –

That the update be noted.

For publication

NATIONAL AUDIT OFFICE - CYBER SECURITY AND INFORMATION RISK GUIDANCE FOR AUDIT COMMITTEES

MEETING:	1. Standards and Audit Committee 2. Cabinet Member for Governance
DATE:	1. 25th July 2018 2. tbc
REPORT BY:	Monitoring Officer/Senior Information Risk Owner Information Assurance Manager Internal Audit Consortium Manager Data Protection Officer

For publication – Report and Appendix A
Not for Publication - Appendix B

1.0 Purpose of report

- 1.1 To inform members of recent National Audit Office guidance on cyber security for audit committees and to carry out audit of the Council's current position, with recommendations for action.

2.0 Recommendations

- 2.1 That the Committee notes the guidance and considers the self-assessment.

3.0 Background

- 3.1 In September 2017 the National Audit Office published guidance on how audit committees can best exercise their responsibilities in relation to cyber security.
- 3.2 The guidance (attached at Appendix A) contains indicators to enable self-assessment and discussion with management.
- 3.3 The guidance says:

Why this issue requires attention

Information is a critical business asset that is fundamental to the continued delivery and operation of any government service. Departments and public bodies must have confidence in the confidentiality, integrity and availability of their data. Any personal data collected, stored and processed by public bodies are also subject to specific legal and regulatory requirements.

Cyber incidents pose an increasing threat to public bodies' management of their information, with hacking, ransomware, cyber fraud and accidental information losses all present throughout the public sector. A realistic understanding of cyber issues is essential to protecting public services and users, particularly as the drive to making public services digital continues. In many organisations, the capability of staff to deal with this issue has not kept pace with the risks.

An additional complexity arises when public bodies need to share data. Organisations need to have mutual trust in each other's ability to keep data secure and take assurance from each other's risk management and information assurance arrangements for this to happen successfully. Not getting this right means that either government fails to deliver the benefits of joining up services or puts its information at increased risk by sharing it across a wider network.

- 3.4 The guidance says that audit committees need to monitor cyber risks as, in an area of rapidly changing risk, it is important for the committees to have an understanding of whether management is adopting a clear

approach, complying with rules and is adequately resourced. This is especially important now that central government is increasingly stepping away from prescribing how individual departments and bodies should approach cyber risk, believing that each organisation's operating model and risk appetite should drive its own separate response.

4.0 Audit Guidance

- 4.1 The NAO includes various checks and tests that an organisation's cyber security can be assessed against, focussing on security of electronic data and related processes and transactions, but pointing out that for some organisations with large volumes of paper records or which need to secure physical access, wider information security activity can be just as important to safeguard their operational performance or reputation.
- 4.2 Part 3 of the guidance sets out high level questions for discussion, Part 4 sets out more detailed areas for discussion, and Part 5 some additional questions relating to the cloud and new technology. These are set out in a table in Appendix B with management comments and a RAG rating to enable discussion.

5.0 Further Action

- 5.1 Subject to consideration of the report and appendices by members and any recommended action, it is proposed to report annually to this committee on these matters.

6.0 Human Resources/people management implications

- 6.1 The self-assessment helps identify ways for more efficient working of the authority's ICT security

7.0 Financial implications

- 7.1 Any implications of the guidance and self-assessment will receive separate consideration.

8.0 Legal and data protection implications

8.1 The self-assessment identifies areas for improvement of the council's systems.

9.0 Recommendations

9.1 That the Committee notes the guidance and considers the self-assessment.

10.0 Reason for recommendations

10.1 To ensure effective and efficient operation of the Council's ICT security.

Document information

Report author		Contact number/email
Gerard Rogers		01246 345310 gerard.rogers@chesterfield.gov.uk
Background documents		
NAO Guidance https://www.nao.org.uk/wp-content/uploads/2017/09/Cyber-and-information-security-guide.pdf		
<i>This must be made available to the public for up to 4 years.</i>		
Appendices to the report		
Appendix A	NAO Guidance	
Appendix B	Self-Assessment	



National Audit Office

Good practice guide

Cyber and information security

Cyber security and information risk guidance for Audit Committees

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £734 million in 2016.

Contents



1 Introduction 4



2 Our guidance 6



3 High-level questions 7



4 More detailed areas to explore 9



5 Additional questions 12



6 Further resources 14

This report can be found on the National Audit Office website at www.nao.org.uk

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1 Introduction

Our interactions with audit committees across the public sector suggest that, alongside rising awareness of the risks associated with cyber security, there is still considerable uncertainty about how committees can best exercise their responsibilities in this area. We have therefore produced this guidance to help them consider the issues involved and structure their discussions with management representatives.

Why this issue requires attention

Information is a critical business asset that is fundamental to the continued delivery and operation of any government service. Departments and public bodies must have confidence in the confidentiality, integrity and availability of their data. Any personal data collected, stored and processed by public bodies are also subject to specific legal and regulatory requirements.

Cyber incidents pose an increasing threat to public bodies' management of their information, with hacking, ransomware, cyber fraud and accidental information losses all present throughout the public sector. A realistic understanding of cyber issues is essential to protecting public services and users, particularly as the drive to making public services digital continues. In many organisations, the capability of staff to deal with this issue has not kept pace with the risks.

An additional complexity arises when public bodies need to share data. Organisations need to have mutual trust in each other's ability to keep data secure and take assurance from each other's risk management and information assurance arrangements for this to happen successfully. Not getting this right means that either government fails to deliver the benefits of joining up services or puts its information at increased risk by sharing it across a wider network.

Why audit committees need to monitor cyber risks

As government's guidance to audit committees makes clear, cyber security is now an area of management activity that audit committees should scrutinise.¹ Together with the rapidly changing nature of the risk, this means that there is an important role for audit committees in understanding whether management is adopting a clear approach, if they are complying with their own rules and standards and whether they are adequately resourced to carry out these activities.

¹ www.gov.uk/government/uploads/system/uploads/attachment_data/file/512760/PU1934_Audit_committee_handbook.pdf

What we have found through our work

In September 2016, we published our report on *Protecting information across government*.² The report describes this devolution of the government's approach to cyber and information security and the lack of coherence between the various bodies responsible for governance, oversight and incident response.

In separate pieces of work on digital skills and online fraud, we have also noted the considerable challenge the public sector has in recruiting and retaining staff with the right experience and the lack of coordination across government and law enforcement agencies in dealing with criminal cyber activity.

Through our financial audits we routinely find weaknesses in financial system controls. We conducted detailed system audits on 30 bodies in 2017, of which 24 had access control weaknesses. We also frequently find issues in system change controls, business continuity, and third party oversight.

How government policy has changed in this area

In the past much of the guidance, governance, mandatory standards and compliance regimes were provided by the centre of government. The 2014 Government Security Policy framework remains the primary reference point for central government in this area.³ But the centre of government is increasingly stepping away from prescribing how individual departments and bodies should approach cyber risk, believing that each organisation's operating model and risk appetite should drive its own, separate response.

While this approach gives individual organisations freedom to make decisions, it also means that it is their responsibility to make their own assessments of what standards or frameworks they wish to adopt. Government has issued various sets of standards or guidance, from *10 Steps to Cyber Security*, to *Cyber Essentials*, *Get Safe Online* and *Cyber Aware*, but has not always made clear who should use which of these. In addition, bodies in some sectors, such as defence, have developed specific approaches which they use with suppliers. Others are using industry standards such as ISO 27001.

The newly established National Cyber Security Centre is bringing together some guidance and advice, but it often relates to a specific area such as the use of passwords or principles for cloud security, rather than providing an overall framework. All of this means it is vital for public bodies to decide what overall framework or approach is most suitable for them.

² www.nao.org.uk/report/protecting-information-across-government/

³ www.gov.uk/government/uploads/system/uploads/attachment_data/file/316182/Security_Policy_Framework_-_web_-_April_2014.pdf



2 Our guidance

How this guidance links to other standards

We do not wish to add to the problem described above by producing yet another set of guidance. The guidance set out in Part 4 is therefore based on the government's *10 Steps to cyber security*. We have however supplemented it in two ways. Firstly, in this section, we have considered some over-arching questions that may help audit committees address strategic issues before getting into areas of detail. Secondly, in Part 5, we have listed some other challenges not covered by the *10 Steps* guidance, to cover newer or emerging areas of technology.

What this guidance covers

What we mean by cyber security is the activity required to protect an organisation's computers, networks, software and data from unintended or unauthorized access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management processes as well as technical controls.

Cyber security is part of the wider activity of information security. Information security is a broad term that encompasses electronic, physical and behavioural threats to an organisation's systems and data, covering people and processes. Data can of course be stored both electronically and physically (e.g. on paper).

In focusing on cyber security, this guidance largely considers the security of electronic data and related processes and transactions. For some organisations with large volumes of paper records or which need to secure physical access, however, wider information security activity can be just as important to safeguard their operational performance or reputation.



3 High-level questions

In engaging with management to explore the issue of cyber security, audit committees may wish to consider various high-level issues first before discussing points of detail or technical activity. From our experience of auditing the performance of a number of different client bodies, we think the following issues represent a good set of initial topics for discussion.

In each case, we have set out a high level question and some aspects of what a good answer might look like, although these may vary by organisation. Overall, management should be able to describe a balanced approach which considers people (culture, behaviours, and skills), process, technology and governance to ensure a flexible and resilient information and cyber security response.

1 Has the organisation implemented a formal regime or structured approach to cyber security which guides its activities and expenditure?

- a** There should be some kind of information security management system in place and under active management, covering policy, processes, governance, skills and training.
- b** This might involve formal certification through schemes such as Cyber Essentials or ISO 27001. This may have been implemented or certified by consultants or specialist bodies from government.
- c** Boards, working groups and individuals should have been allocated specific responsibilities for managing cyber risks.
- d** There should be plans for resilience and recovery in place and these should be exercised regularly.
- e** There should be a clear assessment of the potential risk arising from electronic links with any supply chain or operational partners.

2 How has management decided what risk it will tolerate and how does it manage that risk?

- a** The board should have discussed its overall approach, based on a clear and common understanding of the range of information assets it holds and agreeing which of those are critical to the business.
- b** There should be a clear understanding of the kind of threats and risks the organisation actually faces, based on incident reporting and relevant performance indicators.
- c** The organisation proactively manages cyber risks as an integrated facet of broader risk management, including scrutiny of security policies, technical activity, information security breach reporting, user education and testing and monitoring regimes.
- d** The organisation may be involved in sector or peer information exchange mechanisms to improve its understanding.

3 Has the organisation identified and deployed the capability it needs in this area?

- a** There is either sufficient staff capability to deal with cyber security issues or formal arrangements made to secure this capability from external providers.
- b** There may be actively managed plans in place for the recruitment and retention of staff with specialist security skills.
- c** There should be clear policies on the handling and storage of data, based on relevant legal requirements, such as the General Data Protection Regulation.
- d** There is training available for all staff to ensure appropriate levels of awareness and compliance.
- e** Testing may be conducted to measure the effectiveness of controls.



4 More detailed areas to explore

The National Cyber Security Centre has identified 10 steps for cyber security to help organisations manage cyber risks. Based on these 10 steps we have set out below a series of more detailed questions that audit committees may wish to ask management in order to gain assurance that effective controls are in place.

As part of its assessment, audit committees should consider the quality of the evidence underpinning the assurances provided by management, including whether there is good evidence that the policies and procedures are well designed, consistently implemented, and operating effectively with an appropriate compliance regime, in all relevant areas of the business.

1 Information risk management regime

- Are the governance arrangements for managing information risk based on the importance of data?
- Do information professionals liaise with central government, stakeholders and suppliers to understand the threat?
- Does senior management understand and engage with risk mitigation processes and promote a risk management culture?

2 Secure configuration

- Does a system inventory exist?
- Are security patches applied regularly?
- Are vulnerability scans conducted regularly?
- Is there a minimum defined security requirement included in the baseline build for all devices?
- Have higher risk device users (e.g. non-executive board members, temporary staff) been identified and managed?

3 Network security

- Is the network perimeter managed?
- Do information professionals identify, group and protect critical business systems?
- Are security controls monitored and tested?

4 Managing user privileges

- Are there effective account management processes, with limits on privileged accounts?
- Are user privileges controlled and monitored on the basis of policies for user authentication and access?
- Is access to activity and audit logs controlled? Are these logs reviewed for unusual behaviour?

5 User education and awareness

- Does the organisation have security policies covering acceptable and secure use of data?
- Are there grade and role appropriate levels of staff training covering secure processes and use of systems?
- Are staff aware of information security and cyber risks?
- Do staff know how to report issues and incidents?

6 Incident management

- Does the organisation have an incident response and disaster recovery capability, with suitably trained staff?
- Are there incident management plans and are these tested?
- Are potential criminal incidents reported to law enforcement bodies and relevant data breaches reported to the Information Commissioner's Office?

7 Malware protection

- Are there effective anti-malware defences in place across all business areas?
- Is there regular scanning for malware?
- Are there controls to filter access from web browsers?
- What changes have been made as a result of monitoring results?

8 Monitoring

- Is there a monitoring strategy in place for all ICT systems and networks?
- Do logs and other monitoring activities enable the identification of unusual activity that could indicate an attack?
- Can logs support investigations by showing who accessed what, when they did so and what they did to the information?

9 Removable media controls

- Is there a policy on the use of removable media (e.g. flash drives)?
- Is data encrypted before storage on removable media?
- Are media scanned for malware before being linked to the system?

10 Home and mobile working

- Is there a clear policy on mobile working, with associated training?
- Is a secure baseline build applied to all mobile devices?
- Are data protected outside formal work environments, including in transit?



5 Additional questions

Because technology has developed since the 10 Steps guidance was published and continues to evolve, we have added below some additional questions on two critical areas which are increasingly having an impact on organisations' cyber security postures: using cloud services and developing new technology or services.

1 Using cloud services

- Has the organisation followed recognised guidance, such as the National Cyber Security Centre's cloud security principles, before committing to using cloud services?
- Does the organisation have a strategy for the use of cloud services, based on a clear understanding of personal data privacy and consent implications, as well as in-depth analysis of how cloud services will interface securely with existing services, systems and processes?
- Has the organisation undertaken due diligence on proposed cloud suppliers? This might include assessing:
 - their security accreditation and protocols;
 - contract liability for data losses or service unavailability;
 - whether they have a reputable in-house security team;
 - their approach to proactive testing and historical evidence of how they have responded to security issues;
 - whether the organisation is allowed to perform its own security testing; and
 - the organisation's ability to retain control of information when leaving the cloud provider.
- Has the technical architecture of the system, or the supplier's system, been reviewed by an appropriate security expert, providing an independent assessment of the system's design to ascertain whether the system provides a reasonable level of mitigation for potential attacks?
- Where cloud services are already being used, does the organisation have processes for checking performance against agreed security practices?
- Are plans to mitigate data loss in place, for example using point-in-time backups?

2 Development of new services or technology

- Have security considerations been formally assessed as part of new product or service development?
- Have decision-makers understood security and risk trade-offs through business cases and investment decision processes?
- How far has the organisation relied on others' research versus its own to understand the security of the new technology?
- Are system development activities undertaken in a separate environment from live services?
- How has the proposed network been designed to ensure control and, if necessary, separation of devices from other parts of the organisation's network?



6 Further resources

Below is a selection of guidance and insights that may be useful.

Government guidance

- 1 2014 Government Security Framework:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/316182/Security_Policy_Framework_-_web_-_April_2014.pdf
- 2 Cloud guidance:
www.ncsc.gov.uk/guidance/how-confident-can-you-be-cloud-security
www.ncsc.gov.uk/guidance/cloud-security-standards-and-definitions
- 3 Security frameworks:
www.ncsc.gov.uk/guidance/summary-risk-methods-and-frameworks
www.nist.gov/sites/default/files/documents/cyberframework/cybersecurity-framework-021214.pdf
- 4 Assessment of organisations information security maturity – previously centrally mandated but still used by many departments:
www.ncsc.gov.uk/articles/hmg-ia-maturity-model-iamm
www.ncsc.gov.uk/content/files/guidance_files/GPG40%20-%20Information%20Assurance%20Maturity%20Model%20-%20issue%202.1%20Oct%202015%20-%20NCSC%20Web.pdf

NAO work on information and cyber security

- 1 The digital skills gap in government: Survey findings
www.nao.org.uk/report/the-digital-skills-gap-in-government-survey-findings/
- 2 Protecting Information across government
www.nao.org.uk/report/protecting-information-across-government/
- 3 Online fraud
www.nao.org.uk/report/online-fraud/

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National Audit Office

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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For publication

Summary of Internal Audit Reports Issued 2018/19

Meeting:	Standards and Audit Committee
Date:	25th July 2018
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 Purpose of report

- 1.1 To present for members' information a summary of Internal Audit Reports issued during the period 1st April 2018 to 15th June 2018 in respect of reports issued relating to the 2018/19 internal audit plan.

2.0 Recommendation

- 2.1 That the report be noted.

3.0 Report details

- 3.1 The Public Sector Internal Audit Standards require that the Internal Audit Consortium Manager reports periodically to the Standards and Audit Committee in respect of performance against the audit plan. Significant risk and control issues should also be reported.

- 3.2 Attached, as Appendix A, is a summary of reports issued covering the period 1st April 2018 to 15th June 2018, for audits included in the 2018/19 internal audit plan.
- 3.3 As requested previously, Members have been provided with copies of reports that have been issued with a limited or inadequate audit opinion. This period, 2 limited assurance internal audit reports have been issued (OSD Property Safety Inspections and Careline), the reasons these areas were assessed as "Limited" are summarised in Appendix B.
- 3.4 Appendix A shows for each report a summary of the scope and objectives of the audit, the overall conclusion of the audit and the number of recommendations made / agreed where a full response has been received.
- 3.5 The conclusion column of Appendix A gives an overall assessment of the assurance that can be given in terms of the controls in place and the system's ability to meet its objectives and manage risk in line with the definitions below.

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

or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

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

3.7 The production of this report ensures that Members charged with governance are aware of any internal control weaknesses or fraud identified by internal audit.

4.0 Alternative options and reasons for rejection

4.1 The report is for information.

5.0 Recommendation

5.1 That the report be noted.

6.0 Reasons for recommendation

6.1 To inform Members of the internal audit reports issued in order that the strength of the internal controls in place can be assessed.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for money services.

Document information

Report author		Contact number/email
Jenny Williams – Internal Audit Consortium Manager		01246 345468 Jenny.williams@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.		
Appendices to the report		
Appendix A	Summary of Internal Audit Reports Issued	
Appendix B	Summary of the key issues in relation to reports given a “limited or “inadequate” assurance opinion.	
Appendix C	Internal Audit Report on OSD Property Safety Inspections	
Appendix D	Internal Audit Report on Careline	

Chesterfield Borough Council – Internal Audit Consortium

Report to Standards and Audit Committee

Summary of Internal Audit Reports Issued 2017/18– Period 1st April 2018 to 15th June 2018

Page 57

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date		Response Received	Number of Recommendations	
				Report Issued	Response Due		Made	Accepted
1	Social Media	To ensure that there is a policy and guidance in place and that the use of social media is appropriately controlled	Reasonable	24/4/18	15/5/18	10/5/18	6 (2M 4L)	6
2	Market Hall Cafe	To ensure that there is appropriate security, financial procedures and training in place	Reasonable	4/5/18	29/5/18	15/6/18	7 (1H 1M 5L)	6
3	OSD Property Safety Inspections	To ensure that all gas, electrical and solid fuel safety procedures are in place and operating	Limited	16/5/18	6/6/18	15/6/18	11 (2H 6M 3L)	10

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date		Response Received	Number of Recommendations	
				Report Issued	Response Due		Made	Accepted
4	Careline	To ensure that the key financial controls in relation to the Careline Service are operating	Limited	25/5/18	15/6/18		8(1H 5M 2L)	8
5	Crematorium Income	To ensure that all procedures are operating effectively	Substantial	12/6/18	3/7/18		4 (1M 3L)	Note 1

Note 1 – Response not due at time of writing report

OSD Property Safety Inspections

The reasons this area received “Limited Assurance” are:-

- Recharges for accessing tenants properties via warrants have not been completed (£31,576 of debt not raised) potentially leading to a loss of income for the council.
- The Council's solid fuel servicing policy has not been updated since the smoke and carbon monoxide alarm (England) regulations 2015 were introduced running the risk of non- compliance with legislation.
- Records of smoke detector and carbon monoxide detector tests were not always being recorded. If someone was taken ill or worse the council would not be able to evidence that it had fulfilled its duty.
- From records it was not possible to establish if all properties have a smoke detector on each storey. This is a legal requirement under the smoke and carbon monoxide alarm regulations 2015.
- The 2017/18 electrical inspections, solid fuel services and chimney sweeping had not all been completed.
- There was no record of the electrical and solid fuel training that had taken place.

All of the above leave the council with financial and reputational risks should an incident occur.

Careline

The reasons this area received “Limited Assurance” are:-

- The recommendations agreed during the 2012 audit have not been implemented.
- The procedures in respect of recording the stock of monitoring equipment are inadequate.
- Equipment is being written off without approval or an audit trail.
- There is no reconciliation to ensure that the number of debits raised in the Northgate system for the use of the Careline service matches the number of clients in the Jontek system.
- There is no reconciliation to ensure that the subsidy received from Derbyshire County Council matches the level of subsidy due.
- Not all Careline employees have completed the mandatory safeguarding and information assurance training.

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Bolsover, Chesterfield and North East Derbyshire District Councils'

Internal Audit Consortium

Internal Audit Report

Authority:	Chesterfield Borough Council
Subject:	OSD – Property Safety Inspections
Date of Issue:	16th May 2018
Level of Assurance	Limited Assurance

Report Distribution:	Assistant Director Commercial Services Assistant Director Housing
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INTERNAL AUDIT REPORT

Housing Services Property Safety Inspections

Introduction

A routine audit of the procedures and monitoring in place to ensure that the Council complies with property servicing regulations in respect of its residential properties has recently been carried out.

The Types of property servicing examined were:

- Gas servicing
- Solid fuel appliance servicing
- Smoke detector and carbon monoxide detector testing
- Periodic Electrical inspections

Scope and Objectives

The scope and objectives of the audit was to examine and test the procedures operating in the following areas:

- Ensuring policies are in place detailing when safety checks are required and that these comply with legal requirements
- Confirm that adequate programmes are in place to complete required safety checks
- Procedures in place where access to the property is not initially granted
- Controls in place to ensure work is carried out to the appropriate standard
- Retention of appropriate safety records complies with policy and legislation
- Management information and reporting
- That the council and its engineers hold correct accreditations and training
- Comparison of actual expenditure to budgets
- Data security and service continuity

Conclusion

The overall assessment of the procedures operating gave **Limited Assurance** (Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed).

It is acknowledged that the OSD are aware of the failure to complete the solid fuel and electrical inspection programmes and have implemented steps to address this. In the interim, the council would be liable should there be any significant defects with these appliances.

Findings and Recommendations

Introduction

1. All servicing and maintenance work on the council's residential properties are carried out by the Council's Operational Services Division (OSD). OSD are contracted to the council under a Service Level Agreement.

Previous Audit Recommendations

2. In 2015 a routine audit of the council gas servicing procedures was undertaken, no previous audits have been completed with relation to electrical inspections or solid fuel servicing.
3. During the previous audit 4 recommendations were agreed. A review of the previous audit recommendations established the following:
 - 2 recommendations were completed
 - 1 recommendation had not been progressed
 - 1 recommendation was no longer relevant
4. It was recommended in the previous audit that periodic checks would be completed to confirm that all recharges have been correctly processed however this has not been completed and no recharges could be evidenced for Financial Year 2017/18. Estimated £31,576 (see para. 29)

Recommendation	
R1	It is essential that a review of the current situation in respect of recharges is undertaken to: <ul style="list-style-type: none">• Ensure all warrants have had a recharge and are accurate• To confirm that the process is operating effectively (Priority: High)

Legislation, Policies & Procedures

5. The Smoke and Carbon Monoxide Alarm (England) Regulations came into force on the 1st October 2015. These regulations require the following:
 - All rented properties must have a working smoke detector on each storey of the property,
 - A carbon monoxide alarm is to be equipped in any room of a property which contains a solid fuel burning appliance
 - These devices must be checked on the day that the tenancy begins

6. A comparison of the council policies, legal requirements and best practice guidance was completed as below:

	Legal Requirement	Best Practise	Council Policy
Gas Service	Annually	Annually	Annually
Solid Fuel	No Specific legal Requirement	Manufacturers recommendation	Annually
Chimney Sweep	No Specific legal Requirement	Annually	Annually
Smoke Detectors	At start of new tenancy	Annually	Annually with Gas Service
CO Detectors	At start of new tenancy (solid fuel)	Periodically	No Policy
Electrical Checks	No Specific legal Requirement	At COT or Max. every 5 years	COT or 5 years

7. Where there is no specific legal requirement these appliances are still covered by the Landlord and tenant act 1985 as this states:

“In a lease to which this section applies there is implied a covenant by the lessor:

- (a) to keep in repair the structure and exterior of the dwelling-house (including drains, gutters and external pipes),*
- (b) to keep in repair and proper working order the installations in the dwelling-house for the supply of water, gas and electricity and for sanitation (including basins, sinks, baths and sanitary conveniences, but not other fixtures, fittings and appliances for making use of the supply of water, gas or electricity), and*
- (c) to keep in repair and proper working order the installations in the dwelling-house for space heating and heating water”*

8. A review of the solid fuel servicing policy established that it has not been updated since the smoke and carbon monoxide alarm (England) regulations 2015 were introduced, this should be updated to include the testing of the carbon monoxide detectors.
9. It was established that the electrical installation policy states that “periodic” inspections will be completed however no specific time period is included.

Recommendation	
R2	It would prudent to review the council policies to ensure that they are up to date and that they include details of the Smoke and Carbon Monoxide Alarm Regulations 2015. (Priority: Medium)

Inspection Programmes

10. All council property information is recorded on the Keystone asset management system, including the following:

- Type, make and model of heating appliances (Gas, Solid fuel and electrical)
- Details of wiring and electrical installations
- Property plans, photos and EPCs
- Details of Gas service visits
- Details of Electrical Surveys

This system is used to identify when properties required servicing

Gas Servicing

11. Gas Services are required to be completed prior to the 1 year anniversary of the previous service. The current programme is that a service appointment is made 10 months after the previous service this allows time to access all properties (even if a warrant is required).

12. The Keystone system is used for the gas database so that scheduling and details of appointments are completed using the keystone program.

Solid Fuel Servicing

13. Solid Fuel Services are conducted annually in line with most manufacture recommendations (agreeing with the HETAS best practice guide). They are usually completed in the summer months when convenient for the tenant.

14. A list of properties requiring solid fuel services is taken from the keystone system each year, this is used to arrange work orders on the Northgate system for solid fuel services.

15. During the audit it was established that where tenants request permission to install solid fuel appliances this is denied (apart from 1 instance (57 Keswick Drive) prior to a formal decision on this subject). Where tenants have had solid fuel appliances installed without the councils permission the tenants are being asked to remove the appliances otherwise further legal action will take place.

Electrical Inspections

16. Best practice guidance from the institution of engineering and technology (IET) recommends a maximum period of 5 years between electrical inspections. The council electrical inspections only started in 2017 when a plan was created to complete all council property electrical inspections over a 5 year period. These would then be complete periodically.

17. A standalone database was created from the Keystone system to record electrical rewires and electrical inspections.

Testing

18. When council properties are obtained or sold by the council the gas servicing officer and electrical surveyor receive details of the stock movement from the asset management department.
- From a review of the gas database the following was evidenced:
 - 1 property (17 Byron Road) was bought by the council in May 2017 and has not been updated on gas database, despite a gas service being conducted on 27th February 2017.
 - 1 property (168 Kirkstone Road) was updated on the gas database as sold. This was done inadvertently (166 Kirkstone road had been sold instead). This property was last serviced in April 2015.
 - From a review of the electrical Inspection database it was evidenced that 1 property (17 Byron Road) was incorrectly recorded in the database. The correct details were passed on to the electrical surveyor
 - No issues were identified with the list of solid fuel properties as these were extracted directly from the Keystone system when required.

The relevant engineers were informed of these omissions and the database has been amended with gas services now arranged.

Recommendations	
R3	It would be prudent to create a solid fuel service and electrical inspection service option on the keystone asset management system to enable it to be used for these services (similar to gas). These options should be reconciled annually (including gas, see para. 18) (Priority: Medium)

19. Testing was completed on 30 properties owned by the council (25 gas, 5 solid fuel all 30 properties were tested for electrical inspections).
20. This sample was selected as follows:
- 10 New Tenancies
 - 10 Existing Tenancies
 - 5 properties recently returned to council stock
 - The 5 solid fuel properties were existing tenancies as when these become void these are upgraded to gas.
21. From a sample of 25 properties with gas the following was established:
- 3 properties had no record of smoke detector checks on routine gas services
 - 2 properties had no record on smoke detector checks completed on COT inspections. This is a legal requirement under the Smoke and carbon monoxide alarm regulations 2015
 - 25 Properties (100%) had no record of CO detector checks.
22. From a sample of 5 Solid Fuel Properties:
- 3 properties (60%) had not been serviced in the last 12 months nor had the chimney's been swept
 - No records of smoke detectors or CO detector checks were retained on the solid fuel service records

23. From a sample of 30 electrical Properties

- 20 properties (66%) not been inspected in the past 5 years however a plan has been created in 2017 (See Para. 17)
- 3 properties (10%) had records of inspection on the database but no documentation retained. These inspections occurred prior to the new electrical inspection programme. All inspections reviewed since the new programme started were found to have correct documentation retained.

Recommendation	
R4	It should be ensured that smoke detector testing is recorded for all properties (including properties with storage heaters) and included on the solid fuel service sheet to ensure compliance with the smoke and carbon monoxide alarm regulations 2015. (Priority: Medium)
R5	An instruction should be distributed to ensure that the smoke detector checks are adequately documented on the gas/electrical service sheet on all inspections to ensure compliance with the smoke and carbon monoxide alarm regulations 2015. (Priority: Medium)
R6	Consideration should given to including CO detector testing on the solid fuel service sheet and gas service sheets to ensure compliance with the smoke and carbon monoxide alarm regulations 2015. (Priority: Medium)

24. A report compiled from the keystone system shows 14 properties that have no smoke detectors installed however work orders were created on the Northgate system to service smoke detectors on the property. It was not possible to ascertain or confirm that all properties have a smoke detector on each storey. This is a legal requirement under the smoke and carbon monoxide alarm regulations 2015.

25. A report compiled from the keystone system shows 18 council house (with solid fuel heating appliance) had no carbon monoxide detector. It is a legal requirement to have CO detectors in the same room as a solid fuel appliance in accordance with the smoke and carbon monoxide alarm regulations 2015.

Recommendation	
R7	It is essential that details of CO detectors and Smoke alarms are adequately recorded within the keystone system and that the detectors in the correct location and are tested to comply with the Smoke and carbon monoxide alarm regulations 2015 this should include properties with no gas or solid fuel. (Priority: High)

26. Further interrogation of the Gas Servicing revealed that 115 council properties (out of 8,889 on the gas service programme) were recorded as serviced outside of the 12 month time requirement. A sample of 21 properties identified that 4 out 21 (19%) of these properties were actually completed on time and were recorded incorrectly. From the remaining 111 properties the following was evidenced:-

Days overdue Summary		
< 1 week	68	61.2%
1 < 2 Weeks	27	24.3%
2 < 3 Weeks	16	14.4%
3+ Weeks	0	0.0%
	111	100.0%

It is acknowledged that the majority of these were during a period when the enforcement officer was off ill which impacted on procedures.

27. A review of the completed inspections was completed for 2017/18, the following was evidenced.

	Gas Service	Electrical		Solid Fuel	
		COT	Periodic	Service/update	Chimney Sweep
Target	9056	307	1212	112	112
Actual	9929	291	564	21 / 9	41
% Actual	110%	95%	47%	27%	37%

Gas Services – Due to the 10 month cycle on council property gas servicing this is always over achieved.

Electrical – the Periodic electrical testing started in April 2017 however due to it being a new programme this was not completed. It was established that an external contractor (PK group) are to complete the remaining 2017/18 inspections so that the OSD engineers can focus on the current years inspections. (This is based on best practice and not a legal requirement)

Solid Fuel – It was identified by the senior technical officer that the current solid fuel engineers are not properly qualified to complete the solid fuel services and due to the lack of chimney sweeping services from the contractor the solid fuel programme could not be completed in the yearly timeframe, 5 OSD employees are undertaking solid fuel appliance training. Solid fuel services are due to be completed in 2018/19. Only 27% of solid fuel properties have been serviced in 2017/18 this is not in compliance with the council's policy.

The chimney sweep programme was not fully completed due to the contractor failing to provide the required service these are due to be completed in 2018/19

Recommendation	
R8	It should be ensured that all 2017/18 electrical inspections, solid fuel inspections and chimney sweeps are completed and that the future planned inspections are kept up to date. (Priority: Low)

Access to Properties

28. Where access to properties is not gained through the tenant a series of letters is sent to the tenant, the enforcement officer is then required to attend court to obtain a warrant, this warrant is then executed to gain access to the property to complete the service or cap the gas off.
29. A review of tenant recharges established that these are not currently being completed. The council has paid £31,576 to access 281 properties via warrants in 2017/18 (**see R1**)

Quality Control

30. Each gas engineer has their work inspected at least once per month. This ensures that the work being completed meets the required standard.
31. Electrical and solid fuel services are inspected at the same rate in comparison to responsive repairs work as issued through the northgate system.
32. Where the required standard is not met a further job gets recorded to correct the below standard work. The issue also gets noted on the gas supervisors records so that any training or personnel issues can be adequately identified
33. During the audit it was established that Customer satisfaction surveys are no longer sent out to customers for gas, electrical or solid fuel servicing.

Recommendation	
R9	Consideration should given to reintroducing customer satisfaction surveys to ensure quality of service (Priority: Low)

Certifications and Documentation

34. It was established that all copies of gas service sheets (CP12s) were signed by the tenant and the tenants copy of the CP12 was left with the tenant
35. Where electrical and solid fuel inspections are completed there is no requirement for them to be signed by the tenant or left on the property.
36. All of the councils gas records are stored on the Keystone system as a digital copy, these are retained for a minimum of 2 years
37. Solid fuel documentation is retained in a folder in the OSD office and achieved on a yearly basis. There is no requirement for the tenant to keep a copy.
38. Electrical inspection documentation since the start of the new inspection programme are retained within the electrical inspection database.

Monitoring and Reporting

39. The councils and gas safe's KPI for completing gas services is that all properties have a valid certificate at 31st march each year. A review of the 2017/18 service established that 100% of council properties that were recorded on the gas database did have valid gas service certificates.
40. Each year OSD communicate this KPI to the policy and communication department for monitoring. It was evidenced that no evidence is required when these are reported
41. There are no monitoring or KPIs relating to the solid fuel service or the electrical installations

Recommendation	
R10	It would be prudent to produce annual performance figures with regard to each type of service being completed and that these are adequately reported to CBC with relevant evidence. (Priority: Low)

Accreditations and training

42. The council currently hold the following accreditations:
- ELECSA / ECA
 - Gas Safe
- Each Employee within the council is required to keep up to date with their training otherwise they would not be covered by the council's accreditation
43. A review of the employees training records established the following:
- No record of electrical training was available
 - No record of solid fuel training was available
 - The record of gas training was up to date
44. After a conversation with the senior technical officer it was identified that no employees within the council were adequately trained to complete solid fuel services. 5 gas engineers have been enrolled on the HETAS training course for solid fuel appliances. Once they have qualified they will be inspected by HETAS with the aim to being HETAS certified.

Recommendation	
R11	It should be ensured that all required solid fuel training is completed, that the HETAS certification is achieved and that adequate training records are created and kept up to date for solid fuel (Priority: Medium)

Budgetary Control

45. Budgets for property compliance inspections are included in the responsive repairs budget as detailed below:

Account name	Actual 17/18	Budget 17/18	Variance
Gas heating / servicing	1,151,006.52	1,130,000.00	21,006.52
Solid Fuel heating – servicing	11,609.24	35,000.00	(23,390.76)
Electrical Testing	81,711.22	322,000.00	(240,288.78)

46. Due to the 10 month cycle in gas servicing more has been spent on gas servicing than was originally budgeted.

47. As the solid fuel service programme was not completed on all of the properties due to training issues, this has caused a large underspend in comparison to the budget.

48. The electrical testing had not been completed as planned within the year due to this there was a large under spend in comparison to the budget.

Data Security and Service Continuity

49. It was confirmed that the Keystone system is backed up on a daily basis. If there were any major system errors this could be brought back online.

50. The electrical inspection database is backed up on a daily basis with the user files on the network.

51. It was identified that there are no further contingency plans within the departments

52. A review of the user list for the keystone system was completed, it was established that all users are currently working for CBC.

Acknowledgement

The Auditor would like to thank Officers on the gas safety, electrical and solid fuel servicing areas for their assistance and patience during this audit.

Appendix 1

Internal Audit Consortium Opinion Definitions

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

Internal Audit Report – Implementation Schedule

Report Title:	Property Safety Inspections	Report Date:	16 th May 2018
		Response Due By Date:	6th June 2018

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussio n Required	Comments
				Officer	Date			
R1	It is essential that a review of the current situation in respect of recharges is undertaken to: <ul style="list-style-type: none"> • Ensure all warrants have had a recharge and are accurate • To confirm that the process is operating effectively 	High	Agreed	D Poole	August 18			The recharge process does not impact on the Council's duty as Landlord to undertake regulatory safety inspections. The recharge process should be carried out in accordance with operating policies and procedures. The recharges for 2017/18 are being processed. An internal investigation is taking place with regards to this matter.
R2	It would prudent to review the council policies to ensure that they are up to date and that they include details of the Smoke and Carbon Monoxide Alarm Regulations 2015	Medium	Agreed	D Poole	September 18			Operating processes and practices are compliant with the Smoke and Carbon Monoxide Alarm Regulations 2015. The Policy itself will be updated.

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
R3	It would be prudent to create a solid fuel service and electrical inspection service option on the keystone asset management system to enable it to be used for these services (similar to gas). These options should be reconciled annually (including gas, see para. 18)	Medium	Agreed	Peter Bartle / Dave Poole	30/9/18			Options for implementing this have been considered and as a result we will add both a solid fuel service and an electrical inspection service (five yearly) option onto the Keystone Asset Management System, under the Equipment tab. This will enable the Housing Asset Management Team to set a programme of work within Keystone which will be issued to the contractor (Commercial Services). This alteration to Keystone can be done in house and will enable an annual reconciliation. Both Commercial Services and Housing Asset Management will review and update the process when inspection certificates from Commercial Services are received and in addition to the post inspection they (CS) undertake, Asset Management will also undertake a 10% sample

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussio n Required	Comments
				Officer	Date			
								post inspection.
R4	It should be ensured that smoke detector testing is recorded for all properties (including properties with storage heaters) and included on the solid fuel service sheet to ensure compliance with the smoke and carbon monoxide alarm regulations 2015.	Medium	Agreed	DP	May 18		I asked for this recommendation to be incorporated in one recommendation.	An approach to this had been agreed prior to the Audit and was in the process of being implemented.
R5	An instruction should be distributed to ensure that the smoke detector checks are adequately documented on the gas/electrical service sheet on all inspections to ensure compliance with the smoke and carbon monoxide	Medium	Agreed				I asked for this recommendation to be incorporated in one recommendation.	This is a legal requirement at change of tenancy only. Smoke detectors for all other properties are carried out as part of the electrical inspection process. The recording of the check needs to be applied consistently in the service.

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
	alarm regulations 2015.							
R6	Consideration should given to including CO detector testing on the solid fuel service sheet and gas service sheets to ensure compliance with the smoke and carbon monoxide alarm regulations 2015.	Medium	Agreed					Carbon monoxide alarms and smoke detectors are tested as a part of the Annual Solid Fuel check. Paperwork will be updated.
R7	It is essential that details of CO detectors and Smoke alarms are adequately recorded within the keystone system and that the detectors in the correct location and are tested to comply with the Smoke and carbon monoxide alarm regulations 2015.	High	Agreed	Peter Bartle / Dave Poole	30/8/18			CO and smoke detectors are checked annually as part of the gas / solid fuel service, it appears that not all checks have been recorded on the CP12 certificates. It is not currently a requirement in accordance with the ACOP, however CBC have been doing this as best practice. Following discussion and agreement with Commercial Services amendments will now be made to the CP12 form for future services to record the number /

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussio n Required	Comments
				Officer	Date			
								location / satisfactory functioning / renewal date of smoke and CO detectors in each property. Housing Asset Management will then continue to record the renewal data on Keystone. A copy of the amended certificate is attached.
R8	It should be ensured that all 2017/18 electrical inspections, solid fuel inspections and chimney sweeps are completed and that the future planned inspections are kept up to date.	Low	Agreed	DP	September 18			An approach to this had been agreed prior to the Audit.
R9	Consideration should given to reintroducing customer satisfaction surveys to ensure quality of service	Low	Agreed	DP	July 2018			

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussio n Required	Comments
				Officer	Date			
R10	It would be prudent to produce annual performance figures with regard to each type of service being completed and that these are adequately reported to CBC with relevant evidence.	Low	Agreed	DP	September 2018			
R11	It should be ensured that all required solid fuel training is completed, that the HETAS certification is achieved and that adequate training records are created and kept up to date for solid fuel	Medium	Disagree					The work is currently subcontracted to a HETAS qualified organisation. Training records are up to date.

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Head of Service:	M BRYMER	Date:	6 July 2018
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Bolsover, Chesterfield and North East Derbyshire District Councils'

Internal Audit Consortium

Internal Audit Report

Authority:	Chesterfield Borough Council
Subject:	Careline
Date of Issue:	25th May 2018
Assurance Level Provided:	Limited Assurance
Report Distribution:	Assistant Director Housing



CHESTERFIELD
BOROUGH COUNCIL



INTERNAL AUDIT REPORT

HOUSING SERVICES

CARELINE

Introduction

An Internal Audit review of the procedures and controls operating within the Careline and Support Service facility has recently been undertaken.

Scope and Objectives

The purpose of the audit was to ensure that the key controls relating to the Careline service were operating effectively.

Areas reviewed included the following: -

- Fees and charges
- Installation and stock control
- Recharges to CBC tenants and private users
- Subsidy received from Derbyshire County Council
- Arrears / Recovery of debt
- Tendered Services
- Budgetary control
- Safeguarding and Information Assurance
- Complaints Procedure

Conclusion

The overall conclusion of the audit was that the reliability of the internal key controls operating within Careline and Support Service was assessed as **Limited** - (Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.). (See appendix 1).

Areas reviewed during the audit and other matters arising are detailed in the following report.

Findings and Recommendations

Previous Audit Recommendations

1. The previous audit of the Careline service was undertaken in 2012 and concentrated principally on the administration and reconciliation of the supporting people subsidy grant. This audit was classed as marginal. Five recommendations were made and agreed during the audit. From a review of the recommendations made it was established that the control weakness identified during the 2012 audit are still present. Recommendations have again been made as part of this to help strengthen controls.

Fees and Charges

2. Increases to fees and charges in respect of Careline were reported to Cabinet on 9th January 2018. It was recommended and agreed that a fee of £5.72 per week (monitor and response) and £8.22 per week (monitor and response and support service) be implemented with effect from 1st April 2018.

Installation Procedures and Stock Control

3. Current procedures for the installation of monitoring equipment were reviewed. It was confirmed that adequate controls in respect of recording new purchases of stock within the Jontek system and the allocation of equipment (serial numbers) to individual user accounts is occurring. A procurement exercise for the supply of monitoring equipment was undertaken via the NHS Procurement Unit and commenced in April 2017.
4. A report from the Jontek system detailing stock allocated to individual customers was examined. It was identified that stock item 014875 had been returned to stock on 20/06/2017. This item also appeared on the available stock list. Discussions with the Assistant Manager revealed that this item only has a life expectancy of 5 years so although being shown as available stock it has most likely been disposed of.
5. No specific stock takes to verify actual physical stock held against stock as per the Jontek system have been undertaken. It is anticipated by the Assistant Manager that when the department becomes fully staffed then a full stock audit will be completed.

Recommendations	
R1	A full stock reconciliation must be undertaken as soon as possible to ensure actual stock held agrees with stock levels recorded in the Jontek system. Annual stock takes should then be undertaken there after (Priority: Medium)

R2	Write offs of obsolete stock must be documented and approved by a Senior Officer prior to disposal (Priority: Medium)
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Recharges / Invoicing for service

6. Upon completion of an application form and signed agreement the Northgate rents system is the primary system used for the recharge of the Careline service (for both Council tenants and private clients).
7. A weekly service user amendments list is produced by the Admin Assistant to enable details of new users, ceased users and updates to the level of service. This is forwarded to the Rents section to enable the charging debits to be added or removed. The Agresso system is utilised to raise monthly invoices in respect of monitoring systems installed at Housing Associations.
8. It was established that no formal reconciliation of the number of weekly debits raised within Northgate to the number of users within the Jontek system is being undertaken. It is appreciated that due to the number of users fluctuating on a weekly basis a 100% accurate reconciliation would not be achievable.

Recommendation	
R3	A full reconciliation of the number of debits raised on the Northgate system to the number of clients held in the Jontek system should be undertaken as soon as possible. Additional reconciliations to ensure all private users (including private users in receipt of subsidy and Housing Association users) should also be completed to ensure that there is a debit being created for all users/categories within the service. Annual reconciliations should be undertaken thereafter (Priority: Medium)

Subsidy Received and Reconciliation Procedures

9. Monthly subsidy payments are received from Derbyshire County Council (Social Services) on a four weekly cycle.
10. An electronic remittance advice is produced by DCC and is forwarded to the Assistant Manager and Rents section. The remittance advice is copied into a spreadsheet by the Rents Administrator and is sorted into CBC tenants and non-CBC tenants. The spreadsheet is used to monitor the monthly 4 weekly charge against the monthly subsidy payments received. Any anomalies or variances are reported to the Admin Assistant at Careline to enable them to be queried with Supporting People (DCC).

11. From a review of the monitoring spreadsheet maintained by the Rents Section (CBC tenants only) it was established that the following subsidy payments due / received for 2017/18 were: -

Subsidy Due £247,120.60
Subsidy Received £253,022.83

Variance +£5,902.23

12. Discussions with the Admin Assistant (Careline) revealed that the monthly subsidy remittance advice in respect of private customers is reviewed periodically with the Assistant Manager undertaking a full review and comparison to the Jontek system; however no comparison to Northgate to verify subsidy being posted is completed.
13. Audit testing of subsidy received/amounts charged in respect of a sample of DAST/Non DAST (Derbyshire Accommodation and Support Team) funded customer's was undertaken as part of this audit. For the sample reviewed and from a review of the period 13 DCC remittance advice a number of anomalies/queried were raised with the Admin Assistant: -

Query	Response
<u>A/c Ref 40177997</u> CBC currently receiving £34.00 per month in respect of subsidy; however Northgate a/c only being debited and credited with £2.58 on a weekly basis (should be £8.50)	Admin Assistant confirmed that the debit and credit being posted to Northgate was incorrect and that it would be amended to £8.50 per week.
<u>Turnbull Close</u> Subsidy of £10.32 per week being received, there is no account within the Northgate system.	Turnbull Close is a Housing Association and CBC receive subsidy for monitoring (the equipment installed does not belong to CBC). No accounts are raised in respect of this type of account. If no account debit is raised there is no system in place to monitor that subsidy is being received for Housing Association clients.
<u>A/c ref 40543362</u> CBC receiving £10.32 subsidy per month in respect of this customer; however no weekly debit on the Northgate system (Careline charge ceased on 03/01/2016). It was confirmed that the client is still receiving the Careline service.	Admin Assistant has now reinstated the account and added the charge and subsidy.

<u>A/c Ref 40168818</u>	
This client lives in a private dwelling and is entitled to subsidy (CBC are receiving subsidy for this Client form DCC); however the client is also making regular payments for this service. No subsidy payments have been allocated to this account.	Discussions with the Admin Assistant revealed that an error has occurred and subsidy was not added to this customers account. It has been calculated that an overpayment of £751.18 has been made by this customer and requires refunding.

14. The monitoring of subsidy payments received from DCC in respect of Housing Associations is undertaken by the Assistant Manager (cross check to Jontek system however no monthly debit is raised in respect of Housing Associations. Due to no debit being raised on a financial system for the charge of providing this service no formal reconciliation can be performed to verify the actual level of subsidy received to subsidy due.

Recommendations	
R4	A full review of the monthly subsidy remittance advice received from Derbyshire County Council should be undertaken periodically to ensure subsidy received is accurate and complete (Priority: Medium)
R5	To strengthen controls consideration be given to introducing a monitoring spreadsheet to ensure that where subsidy is due it is being received in respect of private customers and Northgate accounts updated to reflect subsidy received. (Priority: Medium)

Arrears / Recovery of Unpaid Invoices

15. Arrears are monitored by way of a report generated by the Northgate system. The Admin Assistant reviews the report on a weekly basis and pursues overdue/unpaid accounts by way of structured reminder letters (level 1 and level 2) and telephone calls.
16. An arrears reported generated as at 9th April 2018 detailed arrears of £75,928 however this amount is high due to the majority of customers paying by Direct Debit every 4 weeks and this report being at the end of the 4 week cycle. As Monday 14th May 2018 the level of arrears for non direct debit customers was calculated as £1,403.
17. For a sample of accounts with arrears greater than £100 recovery action was confirmed as being undertaken.
18. The largest arrears balance on an individual account was identified as being £207.80. Multiple letters and telephone calls have been made to

the customer and non-payment has resulted in the monitoring equipment being removed.

Recommendations	
R6	Any unrecoverable debts that require to be written off should be done in accordance with the Council's Constitution (Part 4 – Rules of Procedure) (Priority: Low)

Tendered Services

19. In 2011 Derbyshire County Council tendered and awarded contracts for the delivery of a Floating Visiting Support Service. Chesterfield Borough Council was awarded the contract for the Chesterfield area. In 2017 the area was extended to include North East Derbyshire as well as part of Amber Valley. This contract is currently in place until May 2018.
20. A fixed price of £34 is paid to CBC for attending a fall. This fixed price was set as part of the original tender process however no evidence of original contracts/agreements could be located during the audit to verify the rate as accurate.
21. A spreadsheet is maintained by the Admin Assistant for falls attended. The spreadsheet for the period of February 2018 was reviewed and it was verified that the correct amounts had been recharged to DCC in relation to the number of falls.

Recommendations	
R7	When the falls recovery service is next re-tendered and if CBC are the awarded the contract details of income received per fall should be retained to enable a verification of amounts recharged are accurate (Priority: Low)

Budget Performance

22. A review of income and expenditure for cost centre 0631 (Careline) was undertaken for the previous 3 financial years. No significant variances to budget were identified however employee expenses for 2017/18 were £40,000 overspent. This was due to overtime expenses and the requirement to cover shift rota's whilst the recruitment process to fully staff the service was being undertaken.

Disaster Recovery

23. It was established that satisfactory and robust procedures are in place in the event of loss of power / data loss and the service could continue to operate should this occur. IT systems are restricted by individual user name and password and access to certain elements to the Jontek system are restricted by role for example; operatives/managers.

Mandatory Training

24. The completion of mandatory training in respect of Safeguarding and Information Assurance for Careline employees was reviewed. From a review of training records held on the Aspire Learning system it was established that as at 08/05/2018 some employees had not fully completed the mandatory training.

- 5/29 (17%) had not completed Safeguarding
- 6/29 (20) had not completed Information Assurance

Recommendations	
R8	It must be ensured that all Careline employees completed the mandatory training in respect of Safeguarding and Information Assurance as soon as possibly (Priority: High)

Complaints

25. It was confirmed that the Careline service follow the Corporate complaints, comments and compliments procedure. As part of the welcome pack issued to new customer a blank 3 c's form is included.
26. The Assistant Manager confirmed that any complaints logged on the 3c's system that are allocated to Careline are reviewed and if required appropriate action taken.

Acknowledgement

27. The auditor would like to thank the Careline staff for their helpful assistance during the audit.

Appendix 1

Internal Audit Consortium Opinion Definitions

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

Internal Audit Report – Implementation Schedule

Report Title:	Careline	Report Date:	25 th May 2018
		Response Due By Date:	15 th June 2018

	Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
R1	A full stock reconciliation must be undertaken as soon as possible to ensure actual stock held agrees with stock levels recorded in the Jontek system. Annual stock takes should then be undertaken there after	M	<input checked="" type="checkbox"/>	Cathy Browne	Dec 18			<ul style="list-style-type: none"> A full review of stock control was being undertaken prior to the Audit, and a Working Group set up to review stock control procedures (which will form part of application for TSA Quality Standards Framework accreditation); Staff training to be set up for revised procedures. Working with Jontek to remove deleted stock from the system, and Jontek will be on site w/c 18/06/2018.
R2	Write offs of obsolete stock must be documented and approved by a Senior Officer prior to disposal	M	<input checked="" type="checkbox"/>	Cathy Browne	June 18			<ul style="list-style-type: none"> Procedure has been revised since the Audit; New form set up 04/06/2018 to document and approve disposal of equipment (to be completed monthly); Staff training to be carried out at next team meeting in July 2018.
R3	A full reconciliation of the number of debits raised on the Northgate system to the number of clients held in the Jontek system should be undertaken as soon as possible. Additional reconciliations to ensure all private users (including private users in	M	<input checked="" type="checkbox"/>	Cathy Browne	Sept 18			<ul style="list-style-type: none"> A reconciliation exercise was being carried out at the time of the Audit; Initial reconciliation has been completed; A secondary reconciliation check will be carried out

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
	receipt of subsidy and Housing Association users) should also be completed to ensure that there is a debit being created for all users/categories within the service. Annual reconciliations should be undertaken thereafter							during September 2018 to check that any identified issues have been rectified correctly; <ul style="list-style-type: none"> Annual reconciliation to be carried out from 2019.
R4	A full review of the monthly subsidy remittance advice received from Derbyshire County Council should be undertaken periodically to ensure subsidy received is accurate and complete	M	<input checked="" type="checkbox"/>	Cathy Browne	Sept 18			<ul style="list-style-type: none"> Revenues Section currently has a process for checking, but not previously been shared with Careline: meeting to be set up to discuss sharing information; Procedure was in place at the time of the audit within Careline for cross checking remittance schedule against Jontek records; Admin Assistant reviewed procedure for cross checking DCC updates of the remittance schedule, and revised process implemented June 2018.
R5	To strengthen controls consideration be given to introducing a monitoring spreadsheet to ensure that where subsidy is due it is being received in respect of private customers	M	<input checked="" type="checkbox"/>	Cathy Browne	Sept 18			<ul style="list-style-type: none"> To set up a separate monitoring record for non-CBC tenants living in Chesterfield in receipt of DCC funded services (for clients living in Amber Valley borough, see R4).
R6	Any unrecoverable debts that require to be written off should be done in accordance with the Council's Constitution (Part 4 – Rules of Procedure)	L	<input checked="" type="checkbox"/>	Martyn Hudson	Sept 18			<ul style="list-style-type: none"> Current procedure relating to debt recovery for Careline/Support clients to be reviewed, and direct reference made to the

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
								writing-off of unrecoverable debts.
R7	When the falls recovery service is next re-tendered and if CBC are the awarded the contract details of income received per fall should be retained to enable a verification of amounts recharged are accurate	L	<input checked="" type="checkbox"/>	Martyn Hudson	April 2020			<ul style="list-style-type: none"> Whilst DCC has indicated that a re-procurement exercise will be carried out during 2018/19, this now appears unlikely due to timescales, 2019/20 would seem to be more realistic; Written documentation to be requested from DCC outlining the funding figures relating to the falls recovery service.
R8	It must be ensured that all Careline employees completed the mandatory training in respect of Safeguarding and Information Assurance as soon as possibly	H	<input checked="" type="checkbox"/>	Martyn Hudson	June 18			<ul style="list-style-type: none"> 1 Careline Officer currently completing safeguarding training; 4 Careline Officers currently working through Info Assurance training; Above staff have been given until 17 June, 2018 to complete this training; All other Careline staff have completed this training.

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Head of Service:		Date:	
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For publication

Internal Audit Charter

Meeting:	Standards and Audit Committee
Date:	25 th July 2018
Portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 Purpose of report

- 1.1 To report to Members for information and approval the results of a review of the Internal Audit Charter. The Public Sector Internal Audit Standards (PSIAS) state that the Head of Internal Audit must periodically review the Internal Audit Charter and present it to the relevant Committee for approval.

2.0 Recommendations

- 2.1 That Members note the outcome of the review of the Internal Audit Charter.
- 2.2 That subject to any comments Members may wish to make, that the Internal Audit Charter be agreed.

- 2.3 That the agreed Internal Audit Charter be reviewed in 2 years' time or sooner in the event of any significant changes being made to the Public Sector Internal Audit Standards.

3.0 Report details

- 3.1 The Public Sector Internal Audit Standards (PSIAS) which took effect from the 1 April 2013 require that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter (Appendix 1).
- 3.2 The Internal Audit Charter was last formally approved by this Committee in June 2016. It was agreed that the Charter would be reviewed every 2 years to ensure that it is kept up to date.
- 3.3 The PSIAS were updated in April 2017 with some fairly minor wording changes. There were no changes recommended in respect of the content of Internal Audit Charters. The current Internal Audit Charter has been reviewed and it is felt that it is still fit for purpose and that no updates are required.
- 3.4 The Internal Audit Charter is attached as Appendix 1.
- 3.5 Risk management - The re-adoption of the Internal Audit Charter will help to ensure that the Internal Audit Consortium continues to provide a quality service in line with the PSIAS.

4.0 Alternative options and reasons for rejection

- 4.1 There are no alternative options.

5.0 Recommendations

- 5.1 That Members note the outcome of the review of the Internal Audit Charter.

- 5.2 That subject to any comments Members may wish to make, that the Internal Audit Charter be agreed.
- 5.3 That the agreed Internal Audit Charter be reviewed in 2 years' time or sooner in the event of any significant changes being made to the Public Sector Internal Audit Standards.

6.0 Reasons for recommendations

- 6.1 To comply with the requirements of the PSIAS.

Decision information

Key decision number	<i>N/A</i>
Wards affected	All
Links to Council Plan priorities	

Document information

Report author	Contact number/email
Jenny Williams – Internal Audit Consortium Manager	01246 345468 Jenny.williams@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Public Sector Internal Audit Standards	
Appendices to the report	
Appendix 1	Internal Audit Charter

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BOLSOVER, CHESTERFIELD AND NORTH EAST DERBYSHIRE DISTRICT COUNCILS'

INTERNAL AUDIT CHARTER

INTRODUCTION

1. The Public Sector Internal Audit Standards (PSIAS) which took effect from 1 April 2013 require the adoption of an Internal Audit Charter. The Internal Audit Charter describes the purpose, authority and principal responsibilities of the Internal Audit Consortium that have been established to provide the internal audit service to the three Councils'.

PSIAS/REGULATORY BASIS OF OPERATION

2. The adoption of the PSIAS is mandatory and includes a
 - Definition of Internal Auditing
 - Code of ethics
 - International Standards for the Professional Practice of Internal Auditing

3. The Mission of Internal Audit is:-

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

4. The Internal Audit Consortium adopts the PSIAS and the purpose and definition of Internal Audit as specified by the PSIAS:-

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

5. The Internal Audit Consortium also adopts and is mindful of the Core Principles for the Professional Practice of Internal Auditing. So, the Internal Audit Consortium:-

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

- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

The requirement for an internal audit function in local government is specified within the Accounts and Audit (England) Regulations 2015, which state:

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

6. The Consortium agreement details how the Consortium will operate in terms of finance, staffing, reporting and independence.
7. Internal Audit is also governed by policies, procedures, rules and regulations established by the host Council. These include Financial Regulations, Conditions of Service, Codes of Conduct and Anti-Fraud and Corruption strategies.
8. Where key services are to be provided to one of the partner Councils' by other contractors or through a partnership, in order for internal audit to form an opinion on the controls operating, a right of access to relevant information and documents should be included in contracts or agreements concerned.

DEFINITIONS

9. The PSIAS require that the Charter must define the terms "Board" and "Senior Management" for the purposes of internal audit activity.

10. The PSIAS glossary defines the board as:

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the "board" may refer to the head of the organisation, "Board" may refer to an audit committee to which the governing body has delegated certain functions.

11. At Chesterfield Borough Council the "Board" will be the Standards and Audit Committee.
At Bolsover District Council the "Board" will be the Audit Committee
At North East Derbyshire District Council the "Board" will be the Audit and Corporate Governance Scrutiny Committee.
12. In addition to this the Joint Board will approve and monitor the annual business plan and financial position of the Consortium.
13. "Senior Management" – those responsible for the leadership and direction of the Council. This will be each Council's Senior Management Team.

14. The PSIAS adopt the term “Chief Audit Executive”, this role is met by the Internal Audit Consortium Manager.

SCOPE AND OBJECTIVES OF INTERNAL AUDIT

15. The scope of the Internal Audit Consortium encompasses the examination and evaluation of the adequacy and effectiveness of each organisation’s governance, risk management and internal control processes in relation to each organisation’s defined goals and objectives.
16. The Audit Consortium’s remit covers all functions and services for which the Council’s are responsible and this extends to the entire control environment of the organisations and not just financial controls.
17. The Consortium will objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
18. The internal audit service will be delivered on the basis of a risk assessment of auditable areas at each of the partner authorities. A predominantly systems based approach to most audits will be adopted.
19. The internal control system comprises the whole network of systems established within each partner authority to provide reasonable assurance that corporate objectives will be achieved, with particular reference to:
- Consistency of operations with established objectives and goals,
 - The reliability and integrity of financial and operational information,
 - The effectiveness and efficiency of operations and programmes,
 - Safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption,
 - Compliance with laws, regulations, policies, procedures and contracts,
 - The economic and efficient use of resources (value for money) and effective monitoring systems and optimum use of performance management information.
20. With the introduction of the PSIAS, internal audit may also provide “consultancy” services. This work could take any form, provided that the independence of the service is not compromised, but will typically include special reviews or assignments where requested by management, which fall outside the approved plan and for which a contingency is included in the audit plan. There will be no significant consultancy work undertaken without the approval of the relevant Audit Committee.

RESPONSIBILITIES AND REPORTING

21. The PSIAS requires that the Internal Audit Charter should establish the responsibilities and reporting arrangements of internal audit.

22. The Internal Audit Consortium Manager reports directly to each Council's Audit Committee and to each Chief Financial Officer. The Internal Audit Consortium Manager also has direct access to each Council's Chief Executive, Monitoring Officer and where necessary elected Members
23. The Internal Audit Consortium Manager will manage the provision of the Internal Audit service to each Council by: -
- Preparing each year in advance a risk based audit plan for discussion and agreement by each council's Client Officer and approval by the Audit Committee. Any in-year significant changes to the audit plan shall be agreed by the respective Client Officers and Audit Committees,
 - Preparing the internal audit budget and resource plan for approval by the Joint Board,
 - Presenting an annual report to each Council's Audit Committee that meets the requirements of the PSIAS and includes:-
 - An overall opinion on the adequacy and effectiveness of the organisation's control environment (including any qualifications to that opinion),
 - Presents a summary of the audit work from which the opinion is derived, including reliance placed on the work by other assurance bodies,
 - Draws attention to any issues the Internal Audit Consortium Manager judges particularly relevant to the preparation of the Annual Governance Statement,
 - Compares work actually undertaken with work that was planned and to report relevant performance measures and targets.
 - Presenting periodic reports to each Audit Committee summarising all internal audit reports issued and if considered necessary providing copies of the reports,
 - Formally report the findings and recommendations of audit work to senior management and the respective Audit Committee throughout the year. Audit reports will:-
 - Include an audit opinion on the reliability of the internal controls in the system or area audited,
 - Identify inadequately addressed risks and non-effective control processes,
 - Detail management's response and timescale for corrective action,
 - Identify issues of good practice.
 - Ensuring audit work is supervised, reviewed, recorded and reported,
 - Implementing a follow up process for ensuring the effective implementation of audit recommendations or ensuring senior management are aware of the consequences of not implementing a recommendation and are prepared to accept the risk,
 - Liaising as needed with the External Auditor for each Council and with other regulators,
 - Maintaining and managing a risk assessment in relation to the functions of the Consortium,
 - Ensuring that there is an up to date Audit Manual in place setting out expected standards for the service, and monitoring compliance with

these standards, including in relation to the planning, conduct, quality assurance and reporting of audit assignments.

24. Senior managers should assist audit to discharge their duties by:
- The prompt provision of information and explanations,
 - Providing input to the audit plan to ensure attention is focused on areas of greatest risk,
 - Informing the Audit Consortium of any plans for change, including new systems,
 - Responding to the draft internal audit report, including provision of management responses to recommendations, within the timescale requested by the audit team,
 - Implementing agreed management actions in accordance with agreed timescales,
25. The respective Audit Committees must:
- Approve the Internal Audit Charter,
 - Approve the risk based internal audit plan,
 - Receive progress reports and an annual report from the Internal Audit Consortium Manager in respect of the audit plan,
 - Approve any large variances or consulting services not already included in the audit plan.
26. The Joint Board will:
- Approve the internal audit budget and outturn.

AUDIT RESOURCES

27. The Chief Financial Officer at each Council will ensure that the Audit Consortium has the necessary resource to enable the Internal Audit Consortium Manager to be able to give an annual evidence-based opinion.
28. The staffing and budget of the Internal Audit Consortium will be kept under review by the Internal Audit Consortium Manager, bearing in mind the resource requirements identified in the audit plan process. Where resources available do not match the resource requirements identified by the annual audit plans, the Internal Audit Consortium Manager will report to the Joint Board.
29. The Internal Audit Consortium Manager will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience. The Internal Audit Consortium Manager will ensure that the internal audit service is appropriately skilled in terms of qualifications, knowledge and experience.

QUALITY AND ASSURANCE PROGRAMME

30. The PSIAS state that a quality assurance and improvement programme must include both internal and external assessments. Internal assessments should be ongoing and periodical and external assessments must be undertaken at least once every 5 years.
31. All internal audits are subject to a management quality review. Policies and procedures to guide staff in performing their duties have been established within the audit manual.
32. The internal periodic self assessment of internal audit will be undertaken by completing the checklist for assessing conformance with the PSIAS included within the PSIAS Application Note.
33. External assessment can be satisfied by either arranging a full external assessment or by undertaking a self assessment with independent validation. External assessments must be by a qualified, independent assessor from outside the organisations. The Internal Audit Consortium Manager must discuss the format of the external assessments and the qualifications and independence of the assessor with the Audit Committee.
34. An external assessment of the internal audit function will take place at least once every 5 years and the results reported back to the Audit Committee of each Council.
35. The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

INDEPENDENCE , AUTHORITY AND ETHICS

36. In order to achieve its objectives effectively, Internal Audit must be seen to be independent. Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that no quality compromises are made.
37. The scope of internal audit allows for unrestricted access at each partner authority to all records, personnel, premises and assets deemed necessary to obtain information and explanations as it considers necessary to fulfil its responsibilities in the course of the audit. Such access shall be granted on demand and not subject to prior notice.
38. This right of access is included in the agreement signed by the three authorities establishing the Internal Audit Consortium and in each authority's Financial Regulations. In addition, where necessary, the Internal Audit Consortium Manager will have unrestricted access at each authority to:
 - The Chief / Deputy Chief Executive
 - The Chief Financial Officer
 - Members
 - The Monitoring Officer

- The Chair and Members of the Audit Committee
 - Individual Directors / Heads of Service
 - All Other Employees
 - The External Auditor
39. The Internal Audit Consortium Manager will confirm to the Audit Committees' at least annually, the organisational independence of the internal audit activity.
40. Independence is further achieved by:
- Reporting to the Audit Committee and senior management at each authority,
 - Not being part of system and procedures being audited,
 - Rotating responsibility for audit assignments within the audit team,
 - Completing declaration of interest forms on an annual basis,
 - Internal Audit staff not undertaking an audit in an area where they have had operational roles for at least two years.
41. If any member of the Internal Audit Consortium considers there is or could be a conflict of interest, this must be declared to the Internal Audit Consortium Manager who will direct alternative and independent resources to the audit.
42. Where internal audit staff are required to undertake non-audit duties, the Internal Audit Consortium Manager will make it clear that those audit staff are not fulfilling those duties as internal auditors. The Internal Audit Consortium Manager will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those internal audit staff to be subject to audit by those independent from the activity.
43. Internal auditors must conform to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Ethics in addition to those of other professional bodies of which they hold membership.
44. The Code of Ethics promotes an ethical, professional culture to ensure fairness, objectivity and freedom from conflicts of interest. The key principles are;
- Integrity – to establish trust thus providing reliance on their judgement;
 - Objectivity – in gathering, evaluating and communicating information about the activity or process being examined in order to make a balanced assessment of all relevant circumstances without influence;
 - Confidentiality – to respect the value and ownership of information received which should not be disclosed without appropriate authority or a legal or professional obligation to do so, nor be used for personal gain; and
 - Competence – to apply knowledge, skills and experience appropriately.

FRAUD AND CORRUPTION

45. Managing the risk of fraud and corruption is the responsibility of management. Each Council has an Anti Fraud and Corruption strategy and a zero tolerance towards fraud.
46. The Internal Audit Consortium Manager should be notified of all suspected or detected fraud, corruption or impropriety in accordance with each Council's Financial Regulations and Anti Fraud and Corruption strategies, in order to inform their opinion of the internal control environment.
47. Subject to availability of resources with the internal audit plan, internal audit may assist management in the investigation of suspected fraud and corruption.
48. The Internal Audit Consortium Manager will report any instances of fraud detected as a result of audits undertaken to the Audit Committee.

REVIEW OF THE INTERNAL AUDIT CHARTER

49. The Internal Audit Charter will be reviewed every 2 years by the Internal Audit Consortium Manager and will be reported to each Council's Audit Committee for approval.

For publication

Audit Report on the 2017/18 Statement of Accounts

Meeting: Standards & Audit Committee

Date: 25th July 2018

Report by: Director of Finance & Resources

For publication

1.0 Purpose of report

- 1.1 To approve the Statement of Accounts for 2017/18.
- 1.2 To receive the external auditor's 'Report to those Charged with Governance'.
- 1.3 To approve the 'Letter of Representation'.

2.0 Background

- 2.1 The Accounts and Audit Regulations require that:
 - No later than 31st May following the financial year end the responsible financial officer must certify the annual accounts as presenting a true and fair view of the financial position of the authority at 31st March; and
 - No later than 31st July the annual accounts and audit opinion must be approved by members and published.

The Standards and Audit Committee is the nominated body for approving the accounts. The audited Statement of Accounts (SoA) is included as **Annexe 1**.

- 2.2 The Cabinet considered the overall outturn report for 2017/18 on the 15th May. The Cabinet report provides more of a commentary on the outturn, variances from budgets, level of reserves, etc.
- 2.3 Each year the appointed auditor is required to "communicate audit matters to those charged with Governance", namely this committee. The Auditor will present the 'Report to those Charged with Governance' (**Annexe 2**). The report gives details of any adjustments that had to be made to the accounts following the audit and also includes the audit opinion and value for money conclusion.
- 2.4 The Council's auditors are required to obtain written representations from management in respect of various matters relating to the accounts in the form of a 'Letter of Representation'.

3.0 Audited Statement of Accounts 2017/18

- 3.1 There were no significant changes introduced to the requirements for presentation of the Statement of Accounts in 2017/18.
- 3.2 The Statement of Accounts 2017/18 has been audited by the Council's External Auditors, KPMG.
- 3.3 Some minor changes have been made to the Statement of Accounts in order to address issues identified during the audit. However, the overall financial position remains the same as that reported to Cabinet on 15th May 2018.

4.0 Report to Those Charged With Governance

- 4.1 The Auditor's report is included as **Annexe 2**. The Auditor will present the report and answer any questions.

5.0 Management Letter of Representation

- 5.1 The Management Letter of Representation must be prepared by the Council's Responsible Financial Officer after having made appropriate enquiries of other officers. This Committee, 'as those charged with governance', must acknowledge their collective responsibility for the compilation of the financial statements and consider the adequacy of the letter.
- 5.2 A copy of the letter is included as **Annexe 3** and provides representations in respect of fraud, compliance with laws and regulations, contingent liabilities, related party disclosures, and post balance sheet events.

6.0 Recommendations

- 6.1 That the Committee approves the Statement of Accounts for 2017/18.
- 6.2 That the Committee receives the Report to those Charged with Governance.
- 6.3 That the Committee approves the Management Letter of Representation.

7.0 Reason for Recommendations

- 7.1 To comply with statutory requirements

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	

Document information

Report author	Contact number/email
Helen Fox	01246 345452/helen.fox@chesterfield.gov.uk
Background documents None	
Appendices to the report	
Annexe 1	Statement of Accounts 2017/18
Annexe 2	Final ISA 260 report 2017/18
Annexe 3	Management letter of representation 2017/18



CHESTERFIELD
BOROUGH COUNCIL



Statement of Accounts 2017/18

CONTENTS

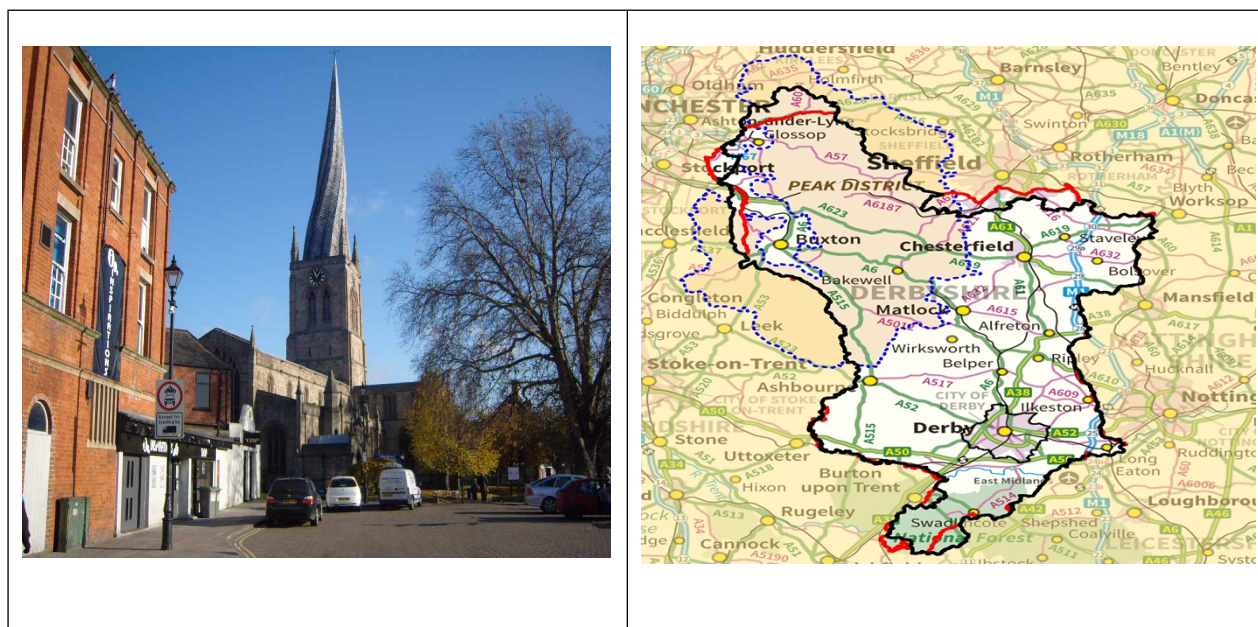
	<u>Pages</u>
Narrative Report	3 - 12
Introduction to the Statement of Accounts	13
Statement of Responsibilities	14
Annual Governance Statement	15 - 21
<u>Core Financial Statements:</u>	
Expenditure & Funding Analysis	22
Movement in Reserves Statement	23
Comprehensive Income & Expenditure Statement	24 - 25
Balance Sheet	26 – 27
Cash Flow Statement	28
Notes to the Core Financial Statements	29 - 95
Housing Revenue Account	96 – 102
The Collection Fund	103 - 107
Auditor's Report	108

NARRATIVE REPORT

AN INTRODUCTION TO CHESTERFIELD BOROUGH COUNCIL

Chesterfield Borough Council is one of eight second-tier authorities within the county of Derbyshire. It lies in the north eastern part of the county and covers an area of 66 square kilometres. Chesterfield is the second largest settlement in Derbyshire (Derby City is the largest).

The market town of Chesterfield acts as the sub-regional centre for North Eastern Derbyshire and provides a range of retail, commercial, leisure and cultural facilities. The town is well located on the edge of the Peak District National Park and benefits from easy access to the surrounding cities of Sheffield, Derby and Nottingham.



Chesterfield is a major centre of employment (over 48,000 people work in the Borough) and attracts almost 20,000 in-bound commuters on a daily basis. Its employment catchment area covers a large part of the surrounding districts of Bolsover and North East Derbyshire, as well as drawing in people from Derbyshire Dales and Sheffield.

According to the Office for National Statistics Mid-Year Estimates for 2016 reported that Chesterfield's estimated population was 104,500.

The demographic and economic profiles of the local population have a major influence on the priorities of the Council and the services it provides.

Economic Profile – a recent economic assessment tells us:

- With over 50,000 jobs, Chesterfield is a significant centre of employment, attracting over 21,000 daily commuters from surrounding areas, mainly North East Derbyshire, Bolsover, Sheffield and Derbyshire Dales. Chesterfield is the most important source of employment for Chesterfield residents with almost 31,000 (or 64%) working within the Borough's boundary.

- Chesterfield Town Centre is ranked as the 125th largest centre in the country for comparison retail shopping with a market potential of £186m and a shopper population of 105,000. Tourism makes an important and growing contribution to the local economy, with Chesterfield attracting 3.5m visitors in 2016 with an economic impact of £164m, supporting over 2,050 jobs.
- In 2017 there were 3,340 businesses based in Chesterfield. Over the five year period (2012-2017), the stock of businesses increased by 21%, behind the increase seen both regionally (23%) and nationally (25%), but a relatively strong performance when compared to Chesterfield's lower rate of employment growth.
- Unemployment currently stands at 2.3% (March 2018) and has fallen significantly since peaking at over 9% in the mid-1990s. The local unemployment rate reached a low point of 1.6% at the end of 2015, but has climbed gradually since that time to currently stand at 2.3%. The differential with the national rate has narrowed in recent years, with the local rate now broadly aligned to the national rate.
- The Indices of Deprivation (2015) ranks Chesterfield as the 85th most deprived district in the country (out of 327 districts) measured on a range of deprivation indicators. Chesterfield's relative position has worsened since 2010 when it was ranked 91st. Chesterfield has particular issues with the Health & Disability and Employment aspects of deprivation where it is ranked 25th and 43rd respectively on a national basis.

Political Structure in 2017/18 – the Council's policies are determined by its Politicians and implemented by the Management Team. Chesterfield has 19 wards and 48 councillors. Following the local election on 7 May 2015 the Labour Party remained in control. There was a By-election in 2017/18 which slightly altered the political structure as follows:

	No. Councillors
Labour Party	37
Liberal Democrat Party	9
Independent	2
Total	48

The Council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The Leader of the Council (Councillor Tricia Gilby) has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions. Cabinet Members are held to account by a system of scrutiny. The Overview and Performance Scrutiny Forum reviewed the Council's financial performance and budget position at regular intervals throughout the year.

Management Structure - The organisational management structure is headed by the Chief Executive Dr Huw Bowen. The Chief Executive is supported by the Senior Leadership Team, consisting of two Executive Directors and the Director of Finance and Resources. The Senior Team is in turn supported by six Assistant Directors, which together form the Corporate Management Team.

Employees – the Council employed 680 full time equivalent staff as at the end of March 2018. The Council has developed a Workforce Strategy which recognises the value and importance of Council staff in delivering services and achieving the Council's priorities.

NON-FINANCIAL PERFORMANCE

The key document that frames the actions of the Council is the four year Council Plan. The Council Plan sets out the Council's Vision and Priorities, defining what we are trying to achieve and why.

The Council Plan is guided by the Council's Vision which is "**Putting Our Communities First**".

There are three corporate priorities that underpin the delivery of the Vision, they are:

1. To make Chesterfield a **thriving borough**.
2. To improve the **quality of life** for local people.
3. To provide **value for money** services

Council Plan 2017/18 Progress

Of the 41 key activities for delivery during 2017/18, 33 have been completed by year end (80%). A further seven activities are expected to be completed in the first half of 2018/19 having experienced delays due to external factors.

Key outputs and outcomes for 2017/18 include:

- Working with partners at Sheffield City Region and D2N2 to negotiate and deliver skills training packages worth £744k which benefit 91 businesses and over 1300 learners
- Securing 100% local labour clauses on eligible planning applications. Once secured we work with developers to support and advise them on clause implementation. This includes advice on local recruitment, links with local training providers and information about how they can best explore local supply chain opportunities
- A range of events and activities to increase footfall in the town centre including medieval market, market festival, record fairs, young people's market, festive fayre and the observation wheel
- Improvements in the homelessness service to prepare for the implementation of the Homelessness Reduction Act. Improvements include establishing a North Derbyshire homeless forum, introducing new technology and enhanced training for staff
- Retaining budgetary discipline and income maximisation strategy by challenging budget holders, vacancy control, maximising core income streams, careful investment, exploration of external grant funding and focusing on operational efficiency savings
- New commercial activity during 2017/18 including the market hall café and environmental services have generated approximately £149k in income

Commitments for year 4 of the Council Plan

The revised Council Plan sets out key commitments to take us through to the end of the Council Plan. 42 key activities have been developed for delivery during 2018/19. Progress

towards these commitments will be monitored and challenged on a quarterly basis via the performance management framework. This includes progress reports for discussion at the Overview and Performance Scrutiny Forum and Finance and Performance Board.

Performance Management Framework

Further improvements to our performance management framework have been introduced. This includes the launch of a Finance and Performance Board to effectively challenge the Council's financial position and decision making and make the key link to the Project Management Office to monitor and challenge strategic project delivery.

FINANCIAL PERFORMANCE 2017/18

Budget Process

Before the start of the 2017/18 financial year the Council produced a five-year budget forecast as part of the budget and council tax setting process. The principal funding sources to pay for the General Fund Services (i.e. excluding Council Housing) are Government grant, the retained share of Business Rates income, Council Tax, fees, charges and rent income. The grant income from the Government and the retained business rates income represents 58% of the General Fund Budget requirement with the remaining 42% coming from the Council Tax. The principal rent income comes from the Council's extensive industrial & commercial property portfolio. Other sources of income include the Council's sports centres, theatre, car parks, planning and other services.

During 2017/18 the Council's finances were subject to:

- Government grant – a cut of £0.6m in the Revenue Support Grant.
- Retained Business Rates – introduced in 2013/14, the scheme allows the Council to share in the growth of this income from within its area which held up against budget. The estimated cost of backdated valuation appeals, however, does suppress the potential income growth.
- Fees, charges and rental income being kept under pressure by economic conditions.
- Council Tax – Government maintained control over any increase by requiring a referendum to be held for an increase of 2% or more. The Council approved a £5 increase in Council Tax for 2017/18 at £154.89 per annum for a Band 'D' property.
- 1% rent reductions on our HRA income.
- Savings and efficiencies through vacancy control, voluntary redundancies, service income strategies, asset rationalisation, business rates pooling and budgetary control.

The 2017/18 Council Budget was set at £10.5m and financed as follows:

	Amount £'000	Proportion of total
Government Funding (Revenue Support Grant, retained business rates and other grants)	6,113	58%
Council Tax	4,416	42%
Total Budget (after savings target)	10,529	100%

The budget for 2017/18 which was set in February 2017 showed a deficit of £238k before allowing for the planned savings target. A savings target of £29k was set leaving a balance of £209k to be financed from reserves or further savings. The savings were to be delivered through greater income across council services, commercialisation, asset rationalisation,

costs control, investment, procurement and strict financial controls. The Council has made good progress across these areas in delivering savings in 2017/18 to achieve a surplus of £1.211m at the end of the year.

Revenue Budget Outturn

The position at the end of the year was a General Fund surplus of £1.211m which was transferred to reserves. The main reasons for the increased surplus compared to £209k deficit budget for 2017/18 included:

- Efficiencies in working methods in Landscape & Streetscene services (+£301k);
- Increased surplus from Operational Services division (+£344k);
- Changes to provisions for debt repayment (+£243k);
- Review of contributions to the Property Improvement reserve (+£282k);
- Savings from retendering of contracts (+£73k);
- Increased income from development control (+£148k);
- Housing Benefits (+£95k);
- Net of all other variances (+£138k).
- Less:
- Reduced rental income from town centre properties (-£204k).

Set out below is a summary of the outturn for 2017/18 based on the 'Portfolio' structure which is used for internal management and reporting purposes.

Table: 2017/18 General Fund - Comparison of outturn with the original budget

	Original Budget £000	Actual £000	Variance £000
<u>Portfolios:</u>			
Leader of the Council	57	45	(12)
Deputy Leader of the Council	1,260	1,198	(62)
Cabinet Member for Economic Growth	209	(78)	(287)
Cabinet Member for Town Centre & Visitor Economy	(418)	3,268	3,686
Cabinet Member for Health and Wellbeing	7,139	6,738	(401)
Cabinet Member for Homes & Customers	1,852	1,643	(209)
Cabinet Member for Governance	2,682	2,639	(43)
Cabinet Member for Business Transformation	497	423	(74)
Portfolio Net Expenditure	13,278	15,876	2,598
Transformation Savings	(29)	-	29
Direct Service Organisations (surplus)/deficit	(305)	(950)	(645)
Other - Non-Portfolio Expenditure/(Income)	(270)	(333)	(63)
Service Expenditure	12,674	14,593	1,919
Interest & Capital Charges	(1,918)	(4,768)	(2,850)
Transfer to/(from) Reserves	(18)	(197)	(179)
Surplus/(Deficit) to/(from) Budget Risk Reserve	(209)	1,211	1,420
Total Expenditure	10,529	10,839	310

The General Fund Working Balance was maintained at £1.5m during 2017/18.

The Movement in Reserves Statement and Comprehensive Income & Expenditure Statement on page 23 and 25 presents this same information but in the format specified by the Code for external reporting purposes.

Housing Revenue Account

The Council continues to be the major provider of rental accommodation in the Borough, with 9,192 dwellings. All income and expenditure relating to the landlord function of providing council housing must be accounted for within a ring-fenced account called the Housing Revenue Account (HRA). The ring-fencing means that the account cannot be used to subsidise other Council activities and similarly other activities cannot be used to subsidise the HRA.

The HRA for 2017/18 is set out on pages 96 to 102 and shows an increase to the HRA balance of £2,440,140 due mainly to delayed starts on major schemes in the capital programme financed from revenue. These included new build housing, refurbishment of a sheltered housing scheme and estate improvement works.

Direct Service Organisations

Although the Compulsory Competitive Tendering legislation ceased to apply from April 2000 the Council has continued to run its direct service operations under previously agreed contract arrangements. The Council operated four Direct Service Organisations (DSOs) during 2017/18 which generated a combined surplus of £1,141,796.

Capital Spending in 2017/18

A summary of the capital expenditure and financing is shown in Note 25 to the core financial statements (page 70).

Capital expenditure on General Fund services totalled £5.5m. The main projects included:

- ◆ Waterside development - £0.1m
- ◆ Peak Resort infrastructure - £1.9m
- ◆ Town Hall alterations - £1.4m
- ◆ Parks/Play area upgrades - £0.2m
- ◆ Northern Gateway development - £0.5m
- ◆ Winding Wheel improvements - £0.1m
- ◆ House Renovation, Disabled Facilities and Decent Homes Grants - £0.8m
- ◆ Innovation Centre Information Technology upgrade - £0.1m
- ◆ Flood Resilience - £0.1m
- ◆ Other - £0.3m

A large proportion of the General Fund Capital Programme was funded from grants and contributions, £3.6m in 2017/18. The remainder was financed from capital receipts from planned asset sales (£0.1m), reserves (£0.4m) and borrowing (£1.4m).

Capital expenditure on Council Housing, aimed particularly at maintaining dwellings at the decent homes standard, was £14.1m of which £10.4m was financed from the Major Repairs Reserve and £3.7m from capital receipts.

Total long-term debt outstanding at the end of the year amounted to £129.3m. This should be viewed in relation to the Council's assets which have a net book value of £472m.

The approved capital programme for the next three years will be financed from increased borrowing from the PWLB, earmarked reserves, anticipated capital receipts and grants.

Pension Costs

The Balance Sheet on page 27 shows the Pension Fund deficit as a Pension Reserve (£61.8m) which is matched by an equal and opposite entry on the other side of the balance sheet described as the Pension Scheme Assets/Liabilities. A triennial revaluation of the Derbyshire County Council Local Government pension scheme was conducted in 2016/17. Note 17 sets out in more detail the comprehensive income and expenditure along with pension assets and liability details.

The pension deficit will be addressed in future re-valuations of the fund and by the revision of employers' contributions. Changes to the scheme were introduced in April 2014 which should make the scheme more affordable.

Reserves & Balances

The Council reserves are set out in Note 11 on page 52. The level of reserves and annual contributions to those reserves were reviewed during 2017/18.

The Council has set money aside in a number of earmarked reserves to meet planned future commitments. The earmarked reserves include:

- £0.7m as a provision for significant revenue budget risks
- £0.3m in a Service Improvement Reserve
- £0.6m in a Digital Innovation Reserve and
- £0.7m from this year's General Fund surplus to create a service redesign reserve

A reserve has been created to meet the Council's share of the Collection Fund deficit on business rates which will be utilised in 2019/20. The balance on this reserve is £1.9m.

The revenue working balance for the General Fund is £1.5m. The balance is prudently based on an assessment of the key income and expenditure risks facing the Council.

There is a balance of £27.4m on the Housing Revenue Account at the year-end which will be needed in future years to finance capital improvement works and to help offset some of the budget pressures caused by recent changes in the Government's Housing Policies e.g. the 1% rent reduction each year for four years from 2016/17.

Medium Term Outlook

The Council continues to face some significant financial pressures over the medium term as the forecast period of austerity for the sector continues through to 2020.

The Local Government Grant 4 year settlement reduces Revenue Support Grant from £1.2m in 2017/18, £859k in 2018/19, £434k in 2019/20 and £0 by 2020/21.

New Homes Bonus (NHB) funding continues to decline as a result of Government policy changes and the Council had to prudently assume income from NHB declines from £690k in 2017/18 to only £11k by 2020/21 due to low house building completion forecasts in Chesterfield.

Other principal sources of income, Baseline Business Rates and Council Tax are projected to increase marginally over the next 4 years.

The Derbyshire Business Rates Pool became a 100% Business Rate Pilot for 2018/19 only. The anticipated growth and retention of government share of business rate funding has been estimated for the pilot. Chesterfield will benefit from some additional growth but this is limited to a few hundred thousand pounds for 2018/19 only. What happens to the pilot beyond 2018/19 and the government's proposals on 75% Business Rate pools, 100% pools and the Fair Funding review have been discounted in our financial projections until policy becomes clearer.

The HRA outturn for 2017/18 was a £2.4m increase in its working balance. In addition it carried forward a capital balance for ongoing and future investment. The HRA account has a sustainable plan with forecast balanced (surplus) budgets in all years in the short to medium term. A 2017 stock condition survey showed that Chesterfield homes met the decent homes standard and capital investment needs were lower in some areas than previously thought. The Council had also made a number of operational changes to reduce and rephase its capital programme, reduce the responsive repairs budget, change to a 52 week rent year to match with the payment of Universal Credit and measures to reduce rental income lost whilst properties are void. The Council has regeneration and house building plans developed to continue to spend HRA capital and revenue funds.

The Council's Medium Term Financial Plan General Fund 'budget' forecast produced in February 2018 shows a budget surplus of £56k in 2018/19 (before savings) but then continuing pressures leading to a forecast £1m deficit peaking in 2021/22.

In order to deliver the required savings to meet the budget challenges, the Council has identified further budget savings targets over the next two to three years and is reviewing a number of larger service contracts and spending areas for further savings.

The Council will invest significantly in IT across the next nine years. This will enable more agile working, robust IT infrastructure, 'Cloud' computing and efficiency and economy savings.

In addition budgets are being tightly managed to control and reduce spend. The Council is also investing in capital assets to generate future income streams, developing its income from existing assets to deliver more efficient services.

The Council places a strong emphasis on economic growth in order to create a thriving Borough and to secure additional revenue for the Council through increasing the number of homes and businesses paying Council Tax and Business Rates respectively. There are a number of regeneration schemes that the Council is actively supporting to achieve this objective (e.g. Waterside, Northern Gateway and Peak Resort).

The Council is continuing to work in partnership with authorities in Derbyshire and the Sheffield City Region to maximise the amount of Business Rate income that is retained locally.

The forecasts produced in the Council's Medium Term Financial Plan include assumptions about future pay awards, inflation, investment returns, council tax increases, transformation savings etc, but there are also a number of other budget risks and uncertainties that cannot be easily quantified at this stage, including:

- a) The impact of successful back-dated valuation appeals on the Retained Business Rates income in future years;
- b) Changes to the key Central Government funding sources such as the Business Rates Retention schemes; and
- c) Changes to the regional and national economy impacting on our trading income.

The implications of these risks will be reviewed on a regular basis as more detail and evidence becomes available.

The Council does have an adequate level of reserves given the risks and investment needs it faces, but reserves are coming under increasing pressure and can only be used once. Further PWLB borrowing (alongside asset disposals) will be required to make capital and operational investments to transform services and grow new income sources. The focus will continue to be on reducing the base budget, by both reducing expenditure and increasing income.

Corporate Risks and Uncertainties

The Council has established procedures for managing risk. Operation level risks are managed at the service level through the service planning and monitoring arrangements. The higher level, corporate risks, which can impact on the Council's ability to deliver its strategic priorities, are managed through the Corporate Risk Register arrangements. The Corporate Risk Register is approved and monitored at the highest levels within the Council, by the Corporate Management Team, the Cabinet, the Standards & Audit Committee and the full Council. The key corporate risks include responding to the austerity agenda (delivering savings and producing a sustainable budget), current legislation (e.g. data protection, procurement, health and safety, safeguarding, etc.), new legislation (e.g. welfare reform and housing rents) and organisational issues (workforce development, information technology, and PSN, resources and regional partnership working).

Summary

In 2017/18 the Council made very good progress in addressing the financial challenges it faced and in meeting its Council Plan targets.

The General Fund revenue outturn with a £1.2m surplus was £235k above the revised forecast for the year. The HRA ended the year with a £2.4m increase in its working balance. The current capital programme was resourced in the short term with only the planned level of prudential borrowing required. An adequate level of reserves has been maintained which will help to provide financial resilience for 2018/19 and future years.

The next few years will continue to be challenging but the Council is confident that it can meet these challenges. The Council has a good track record of responding to such challenges. There are risks, as highlighted above, but the Council has effective risk management processes in place. With robust financial management, an effective

management team and the recent improvements in its performance management arrangements the Council will be in a strong position to meet the future challenges.

Further Information

If you would like to receive further information about these accounts please contact the Chief Accountant at the Town Hall, Rose Hill, Chesterfield, Derbyshire, S40 1LP. Interested members of the public have a statutory right to inspect the accounts prior to audit. The dates on which the accounts are available for inspection are advertised annually on the Council's website.

Further information on non-financial performance data is available from the Assistant Director Policy and Communications.

Acknowledgments

I would like to express my gratitude to all colleagues, from the Accountancy team and other services, which have assisted in the preparation of the Statement of Accounts and for their support during the financial year.

This Statement of Accounts provides the financial information for the year. A Council Plan has also been developed setting out the Council's priorities over a four year period. Copies of this document are available from council buildings and on our website.

**K HANLON BSc, FCCA, ACMA, GCMA, MBA
DIRECTOR OF FINANCE & RESOURCES**

**M. RAYNER
CHAIR OF STANDARDS AND AUDIT COMMITTEE**

INTRODUCTION TO THE STATEMENTS

The Statement of Accounts is prepared using the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which defines proper accounting practices for local authorities in England. The pages that follow are the Council's final accounts for 2017/18 and comprise:

Expenditure & Funding Analysis (EFA) – shows how annual expenditure is spent and funded and how it is split for decision making purposes between the council's portfolios.

Comprehensive Income & Expenditure Statement (CIES) – This reports the cost for the year of providing the services for which the Council is responsible rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement.

Movement in Reserves Statement (MIRS) – provides a summary of the changes that have taken place in the 'reserves' section of the Balance Sheet over the financial year as a result of incurring expenditure and generating income, movements in the fair value of assets and movements in reserves that will affect the availability of resources to the authority.

Balance Sheet – This explains the Council's year-end financial position. It shows the balances and reserves at the Council's disposal and its long term indebtedness, the net current assets employed in its operations, and summarised information on the non-current assets held.

Cash Flow Statement – This summarises the inflows and outflows of cash arising from both revenue and capital transactions with third parties.

Statement of Accounting Policies – This explains the basis of the figures in the accounts. The accounts can be properly appreciated only if the policies, which have been followed in dealing with material items are explained.

Housing Revenue Account (HRA) – This reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure – maintenance, administration and capital financing costs – and how these are met by rents and other income.

Collection Fund – This shows the transactions of the Council as a billing authority in relation to the collection from taxpayers and distribution to Local Authorities and the Government.

RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance & Resources;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

The Director of Finance's Responsibilities

The Director of Finance & Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance & Resources has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Local Authority Code;
- Kept proper accounting records which were up-to-date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTOR OF FINANCE'S CERTIFICATE

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its income and expenditure for the year ended 31st March 2018.

**K HANLON BSc, FCCA, ACMA, GCMA, MBA
DIRECTOR OF FINANCE & RESOURCES**

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

Chesterfield Borough Council is responsible for ensuring that its 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Chesterfield Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government Framework 2016 edition*. This Statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015 which requires all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31st March 2018 and up to the date of approval of the Statement of Accounts.

The Governance Framework

The key elements of the systems and processes that comprise the Council's governance framework are as follows:-

The Council's vision is "Putting our communities first". Chesterfield Borough Council identifies and communicates the authority's vision of its purpose and intended outcomes for citizens and service users via its Council Plan and Vision statement. The Council Plan consists of 3 priorities:-

To make Chesterfield a thriving borough
To improve the quality of life for local people
To provide value for money services

The Council's values reflect the way the council wants to achieve its vision, these are:-

Customer focused: delivering great customer service, meeting customer needs

Can do: striving to make a difference by adopting a positive attitude

One council, one team: proud of what we do, working together for the greater good

Honesty and respect: embracing diversity and treating everyone fairly

The Council Plan is cascaded down through managers, meetings, service plans, team plans, budgets, the medium term financial plan and employee development reviews. This flow ensures that resources are utilised for the achievement of the Council Plan and vision.

The Council works with a number of partnerships to deliver its aims. Where the Council has entered into partnership arrangements it seeks to ensure that these promote the Council's vision of its purpose and intended outcomes for citizens and service users and that they are subject to appropriate governance and performance management arrangements. Two of the Council's significant partnerships are Sheffield City Region Combined Authority and the Local Enterprise Partnership for Derbyshire and Nottinghamshire for which there are inter authority agreements in place.

In June 2017 Building Control left the Council to become part of a limited company (The Derbyshire Building Control Partnership). There are a series of legal agreements that support the new company including a shareholder agreement and a service level agreement. A separate Board has been set up to govern the new company.

The best use of resources and value for money are obtained by scrutiny reports and reviews, reviewing service performance, benchmarking and monitoring budgets.

Chesterfield Borough Council has a formal constitution in place that sets out how it operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. In addition, the constitution sets out the roles and responsibilities of Members and Senior Managers.

The Cabinet is the part of the authority which is responsible for most day to day decisions. The overview and scrutiny committees support the work of the Council by scrutinising the decisions made. The Standards and Audit Committee is responsible for maintaining and promoting high standards of conduct and for considering the effectiveness of the Council's risk management arrangements and the control environment. The Committee also reviews reports from internal and external audit and other inspection agencies and seeks assurance that action has been taken where necessary.

Formal Codes of Conduct are in place for Members and Officers and are available on the intranet and form part of induction procedures. To further enhance these high standards the Council has in place a comments, complaints and compliments procedure, a Customer Services Charter, an Anti- Fraud, Bribery and Corruption policy and a Confidential Reporting (whistle blowing) Code.

In order to ensure compliance with relevant laws and regulations, internal policies and procedures Chesterfield Borough Council has a comprehensive induction package and provides training for staff and Members on a regular basis. The Constitution is underpinned by legal references. Training needs are identified through Member and employee performance and development reviews and continuous professional development is encouraged. In 2017 the Council introduced an online learning tool that records all training and includes a comprehensive bank of training modules. Policies are readily available on the intranet to view.

Chesterfield Borough Council has a risk management strategy, a risk management group and risk is considered as part of all Cabinet reports. The corporate risk register and service risk registers are regularly reviewed and appropriate training is provided.

The Council has a suitably qualified Business Transformation section and a Business Transformation Strategy.

The Chief Executive is the designated Head of Paid Service, with the statutory responsibility for the overall review of the Council's staffing and operation. The Chief Executive is monitored for performance in the delivery of political priorities which are in turn monitored and measured across all staff. The Council's Monitoring Officer attends Corporate Management team meetings and is suitably qualified.

The Chief Financial Officer is professionally qualified and experienced to undertake their roles and responsibilities and is supported by an experienced and appropriately qualified finance team. The Chief Financial Officer is a key member of the Corporate Management team and leads and directs a finance function that is fit for purpose. The Chief Financial Officer ensures compliance with S151 requirements. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Internal Audit is provided on a Consortium basis for Bolsover District Council, North East Derbyshire District Council and Chesterfield Borough Council. The Internal Audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and conforms to the requirements of the CIPFA statement on the Role of the Head of Internal Audit. The Internal Audit Consortium Manager is a senior manager, professionally qualified and leads an appropriately resourced and experienced audit team. The external review of internal audit confirmed that the team is compliant with the PSIAS.

Chesterfield Borough Council has a variety of means of communicating with all sections of the community and stakeholders including the Community Engagement Strategy, the Council's website, the publication of "Your Chesterfield" three times a year and an annual Community Engagement Programme.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Consortium Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The processes that have been applied in maintaining and reviewing the effectiveness of the governance framework include:

- Internal audit reviews of systems and procedures in accordance with the agreed internal audit plan
- Annual review of the Council's Code of Corporate Governance
- Assessment against the key elements of the governance framework
- Monitoring Officer reviews and monitors the operation of the Council's Constitution
- The Chief Executive, Executive Directors and Corporate Management Team monitoring the risks and the associated controls assigned to them
- The Chief Financial Officer (the Director of Finance and Resources) providing the Council and the Management team, with financial reports and financial advice covering the whole range of council activities
- Reviews by external agencies such as the Council's external auditor
- A review of the system of assurances/internal controls
- The Council's Standards and Audit Committee receives reports on the work of internal audit, including the annual report by the Internal Audit Consortium manager. The annual review of the Local Code of Corporate Governance is reported to both the Standards and Audit Committee and the Council's Cabinet.
- The Cabinet receives and considers reports on the outcome of reviews by the external auditor and other review agencies.

It can be demonstrated that on the whole the Council's governance arrangements support the council's corporate plan by the sheer volume of achievements. A few of these are:-

- Getting the green light from the Planning Inspectorate for our Local Plan: Core strategy which sets out how land across the borough will be used over the next 20 years. This includes a number of major regeneration schemes, such as Chesterfield Waterside and Peak Resort.
- Five of our parks have been awarded the prestigious Green Flag award.
- Chesterfield's recycling rate as a Borough has improved from 41% to 45%.
- We are investing £3.5m in a new Saltergate Car Park
- We have invested in the Pomegranate Theatre and the Winding Wheel, upgrading our cultural venues to bring larger and more varied shows to Chesterfield and attracting £495,000 in Arts Council England funding.
- Our £3m Parkside Housing Scheme provides high quality homes for older people and new affordable housing has recently been completed at Chesterfield Waterside.
- We have agreed local labour clauses on all eligible major developments.
- The Northern Gateway site development is underway including the redevelopment of the former co-op building. This will include a hotel, bars and restaurants and a gym.
- We invested £14m in 2017/18 in our council house stock to ensure that it continues to meet the decent homes standard and deliver affordable warmth for our tenants.
- Delivering or supporting over 90 events per annum in parks and open spaces across the Borough.
- We are undertaking more commercial trading to secure a profit to re-invest in council services.

Internal Audit Opinion 2017/18

The Internal Audit Consortium Manager is responsible for the delivery of an annual audit opinion that can be used by the Council to inform its governance system. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Assurance Level 2017/18	Number	Control Level 2016/17	Number
Substantial	7	Good	8
Reasonable	16	Satisfactory	12
Limited	10	Marginal	4
Inadequate	2	Unsatisfactory	5
		Unsound	-
Total	35		29

In relation to the main financial systems I am satisfied that reasonable assurance can be provided in respect of the governance, risk management and control arrangements.

However during 2017/18, 10 limited assurance reports have been issued and 2 inadequate assurance reports. In these areas the governance, risk management and control arrangements were not operating effectively, some key risks were not well documented and there was a risk that the systems objectives would not be achieved.

Where weaknesses have been identified internal audit has worked with management to agree appropriate corrective actions and a timescale for improvement.

A Review of 2016/17 Governance Issues

A mid-year review of progress against the 2016/17 AGS action plan was undertaken by the Corporate Management team and was reported to the Standards and Audit Committee. The action plan identified 10 areas for improvement, of these 4 of the identified actions are completed, 1 is no longer applicable, 3 are behind the targeted timescale and 2 have revised timescales in place. Where necessary the uncompleted areas for improvement and associated actions have been carried forward to the 2017/18 AGS action plan.

Significant Governance Issues

Whilst there are many areas of the Governance Framework that are operating satisfactorily, the work of internal audit and discussions with the Corporate Management team has identified that there are a number of areas where action can be taken to improve the governance arrangements in place. The significant issues are summarised below.

The following significant governance issues have been identified:

No.	Issue Identified	Action to address
1.	Budget – There is a budget gap in relation to the General Fund as identified in the Medium Term Financial Plan 2018/19 – 2022/23.	Need to continue to closely manage the Medium Term Financial Plan to ensure that the Council remains of sound financial standing, and to support decisions on the

		<p>alignment of budgets to enable delivery of the Council Plan for the period 2018-2023. This will be achieved through the established mechanisms for financial planning and reporting:</p> <ul style="list-style-type: none"> • Finance and Performance Board • Corporate Cabinet and CMT workshops • Monthly budget monitoring reports to service managers • Quarterly budget monitoring reports to the Council, Cabinet and Scrutiny Forum • Quarterly Assistant Director meetings with finance on budgets • Regular dialogue with the trade unions <p>Further savings and income generation plans are ongoing.</p>
2.	Data Protection – the Council is working towards an action plan which will ensure that we are able to comply with the new European Data Protection Regulations that come in to force from May 2018.	A detailed action plan has been produced and additional resource provided to achieve it. Good progress has been made, including development of revised GDPR compliant policies, updated privacy notices, achievement of Cyber Security + and PSN accreditation. Progress against the action plan will be closely monitored and key milestones in this plan are currently on track. Information risk areas have been identified relating to ICT and these have been incorporated into the approved ICT Improvement Programme.
3.	Information Technology - the Council's IT infrastructure is in need of investment to ensure that it is fit for purpose and can successfully support the Council's transformation projects.	The Council has completed an external review of its ICT service and a three year improvement plan has been developed and approved by Council. This is being implemented from 2018.
4	Non Housing Property Repairs – The previous 10 year plan has not been adhered to, monitored for completion or adjusted as a result of condition surveys. The first dozen assets have now been assessed for condition and costed for capital and revenue works required. This issue has been carried forward from 2015/16.	The Council's partner will undertake further work to assess the condition of the remaining Council's assets and build the work required in to capital and revenue plans. The next tranche of assets has been identified.
5	Health and Safety - There has been a lack of capacity to ensure that corporate health and safety arrangements are fit for purpose. This	A new Health and Wellbeing Manager has been appointed from April 2018. A revised staffing structure and an action plan with resource requirements has been

	has been compounded by the departure of the Health and Wellbeing Manager and continuing asbestos work. This issue has been carried forward from 2016/17.	developed in consultation with health and safety representatives. This has been approved by the Health and Safety Committee. Progress against the action plan will be monitored by the Corporate Leadership team and the Standards and Audit Committee.
6	Procurement – A recent audit identified that there is no approved strategy in place and that there has been no training for officers. The procurement process requires improvement from start to finish, from identifying the procurement need through to the letting and management of the contract so the Council can demonstrate that the tendering and letting of contracts is in line with EU Regulations, Financial Regulations and Standing Orders. The Council should also take steps to comply with the government transparency code (details of contracts over £5,000 to be published).	Training will be provided to officers as a matter of urgency. The Council will consolidate its contract registers and a comprehensive register will be published on its website. The draft procurement strategy will be approved. The Council also intends to undertake a full review of its means of procuring in 2018/19.
7	Workforce Capacity – Ongoing budget challenges and service demands mean that the Council will continue to need to manage workforce capacity.	Workforce capacity needs to be managed and reviewed regularly.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Cabinet and the Standards and Audit Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas identified for improvement form part of the 2017/18 Annual Governance Statement action plan.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

H Bowen
Chief Executive

Councillor T Gilby
Leader of Chesterfield Borough Council

Date:

EXPENDITURE AND FUNDING ANALYSIS

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the authority (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

It also shows how this expenditure is allocated for decision making purposes between the Council's portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income & Expenditure Statement.

Expenditure & Funding Analysis

2016/17 Net Expenditure Chargeable to the General Fund and HRA Balances (Restated) (£000's)	2016/17 Adjustment between Funding and Accounting Basis (Restated) (£000's)	2016/17 Net Expenditure in the Comprehensive Income and Expenditure Statement (Restated) (£000's)	Portfolio	2017/18 Net Expenditure Chargeable to the General Fund and HRA Balances (£000's)	2017/18 Adjustment between Funding and Accounting Basis (£000's)	2017/18 Net Expenditure in the Comprehensive Income and Expenditure Statement (£000's)
(50)	105	55	Leader of the Council	50	13	63
1,244	(353)	891	Deputy Leader of the Council	3,206	(931)	2,275
(3,687)	4,997	1,310	Cabinet Member for Economic Growth	6,850	(5,485)	1,365
1,259	(324)	935	Cabinet Member for Town Centre and Visitor Economy	(3,416)	4,343	927
6,661	(191)	6,470	Cabinet Member for Health and Well Being	4,739	1,839	6,578
954	802	1,756	Cabinet Member for Homes and Customers	931	716	1,647
1,441	1,439	2,880	Cabinet Member for Governance	2,569	195	2,764
161	303	464	Cabinet Member for Business Transformation	(2,079)	2,332	253
(10,014)	(61,895)	(71,909)	Housing Revenue Account (HRA)	(9,707)	906	(8,801)
(2,031)	(55,117)	(57,148)	Net Cost of Service	3,143	3,928	7,071
(556)	(2,524)	(3,080)	Other Income and Expenditure	(7,934)	1,338	(6,596)
(2,587)	(57,641)	(60,228)	(Surplus)/Deficit	(4,791)	5,266	475
(32,747)			Opening General Fund and HRA Balance	(35,334)		
(2,587)			Movement	(4,791)		
(35,334)			Closing General Fund and HRA Balance	(40,125)		
(11,924)			Opening General Fund Balance	(10,014)		
1,910			Movement	(2,415)		
(10,014)			Closing General Fund Balance	(12,429)		
(20,823)			Opening HRA Balance	(25,320)		
(4,497)			Movement	(2,376)		
(25,320)			Closing HRA Balance	(27,696)		

MOVEMENT IN RESERVES STATEMENT

This Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.

The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax or rents for the year.

The 'Net Increase/Decrease' line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 st March 2016	11,924	20,823	661	-	443	33,851	203,842	237,693
Movement in reserves during 2016/17								
Total Comprehensive Income & Expenditure	(6,165)	66,392	-	-	-	60,227	6,841	67,068
Adjustments between accounting basis & funding basis under regulations (note 10)	4,255	(61,895)	2,813	-	681	(54,146)	54,146	-
Net Increase / (Decrease) in 2016/17	(1,910)	4,497	2,813	-	681	6,081	60,987	67,068
Balance at 31st March 2017 carried forward (notes 11, 40 & 41)	10,014	25,320	3,474	-	1,124	39,932	264,829	304,761
Movement in reserves during 2017/18								
Total Comprehensive Income & Expenditure	(1,946)	1,471	-	-	-	(475)	8,674	8,199
Adjustments between accounting basis & funding basis under regulations (note 10)	4,361	905	1,229	-	5,488	11,983	(11,983)	-
Net Increase / (Decrease) in 2017/18	2,415	2,376	1,229	-	5,488	11,508	(3,309)	8,199
Balance at 31st March 2018 carried forward (notes 11, 40 & 41)	12,429	27,696	4,703	-	6,612	51,440	261,520	312,960

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

The Comprehensive Income & Expenditure Statement brings together all the activities of the authority, summarises all the resources that the authority has consumed in providing those services and consolidates all the gains and losses experienced during the financial year.

The Statement has two sections.

The first section provides information on the costs of local authority services, net of specific grants and income from fees and charges to give the 'Surplus or Deficit on the Provision of Services'. This represents the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

The second section, 'Other Comprehensive Income & Expenditure' shows any changes in net worth for any other reason: eg as a result of movements in the value of non-current assets or actuarial gains or losses on pension liabilities.

The 2016/17 figures have been restated in the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis and associated notes to reflect a change in the Portfolio structure implemented during 2017/18 following a change to the Leader and Deputy Leader of the Council.

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

2016/17				2017/18		
Expenditure (Restated) £000	Income (Restated) £000	Net Expenditure (Restated) £000	Portfolio	Expenditure £000	Income £000	Net Expenditure £000
230	(175)	55	Leader of the Council	250	(187)	63
1,706	(815)	891	Deputy Leader of the Council	3,625	(1,350)	2,275
7,399	(6,089)	1,310	Cabinet Member for Economic Growth	6,613	(5,248)	1,365
9,037	(8,102)	935	Cabinet Member for Town Centre and Visitor Economy	9,055	(8,128)	927
15,703	(9,233)	6,470	Cabinet Member for Health and Well Being	15,766	(9,188)	6,578
42,089	(40,333)	1,756	Cabinet Member for Homes and Customers	40,077	(38,430)	1,647
4,654	(1,774)	2,880	Cabinet Member for Governance	4,439	(1,675)	2,764
3,785	(3,321)	464	Cabinet Member for Business Transformation	3,535	(3,282)	253
84,603	(69,842)	14,761	COST OF GENERAL FUND SERVICES	83,360	(67,488)	15,872
28,801	(38,519)	(9,718)	Local Authority Housing (HRA)	28,757	(37,558)	(8,801)
(62,191)	-	(62,191)	HRA Exceptional Item	-	-	-
51,213	(108,361)	(57,148)	COST OF SERVICES	112,117	(105,046)	7,071
2,534	-	2,534	Other operating expenditure (Note 12)	2,957	-	2,957
11,561	(5,447)	6,114	Financing and investment income & expenditure (Note 13)	12,396	(5,389)	7,007
-	(11,728)	(11,728)	Taxation and non-specific grant income (Note 14)	-	(16,560)	(16,560)
		(60,228)	(Surplus)/Deficit on Provision of Services			475
		(6,888)	(Surplus)/deficit on revaluation of Property, Plant & Equipment			(2,650)
		-	(Surplus)/deficit on revaluation of available for sale financial assets			-
		48	Actuarial (gains)/losses on pension liabilities			(6,024)
		(6,840)	Other Comprehensive Income & Expenditure			(8,674)
		(67,068)	Total Comprehensive Income & Expenditure			(8,199)

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by reserves held by the authority. Reserves are reported in two categories.

The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the capital receipts reserve that may only be used to fund capital expenditure or repay debt).

The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (e.g. the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

BALANCE SHEET AS AT 31ST MARCH 2018

2016/17		2017/18	Notes
£000		£000	
343,059	Council Dwellings	340,472)
69,437	Other Land & Buildings	68,856)
497	Vehicles, Plant, Furniture & Equipment	487)21,22,
2,914	Infrastructure Assets	2,674)24,25,
4,072	Community Assets	4,072)27
1,238	Assets Under Construction	3,468)
1,238	Surplus Assets Not Held for Sale	1,828)
422,455	Property, Plant & Equipment	421,857	
2,902	Heritage Assets	2,902	23
50,387	Investment Properties	46,182	26
485	Intangible Assets	356	
4,506	Long Term Investments	-	
254	Long Term Debtors	458	
480,989	Long Term Assets	471,755	
43	Assets Held for Sale - Investment Properties	-	33
17,592	Short Term Investments	21,526	
203	Inventories	192	
6,550	Short Term Debtors	4,551	31
17,130	Cash & Cash Equivalents	26,943	32
41,518	Current Assets	53,212	
(4,372)	Short Term Borrowing	(2,225)	
(13,299)	Short Term Creditors	(14,035)	34
(1,170)	Short Term Provisions	(689)	35
(522)	Cash Overdrawn	(821)	32
(19,363)	Current Liabilities	(17,770)	
(131,553)	Long Term Borrowing	(129,336)	
(2,751)	Long Term Provisions	(2,816)	35
(63,741)	Net Pension Scheme Liabilities	(61,763)	17 & 44
(180)	Other Long Term Liabilities	(186)	
(158)	Capital Grants Receipts in Advance	(136)	19
(198,383)	Long Term Liabilities	(194,237)	
304,761	Net Assets	312,960	
39,932	Usable Reserves	51,440	11,40
264,829	Unusable Reserves	261,520	41-47
304,761	Total Reserves	312,960	

CASH FLOW STATEMENT

The Cash Flow statement shows the changes in cash and cash equivalents of the authority during the reporting period.

The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

CASH FLOW STATEMENT

2016/17 £000		2017/18 £000
(60,228)	Net (surplus)/deficit on provision of services	474
35,442	Adjustments to net (surplus)/deficit on provision of services for non-cash movements (Note 48)	(33,106)
11,864	Adjustments for items included in net (surplus)/deficit on provision of services that are investing and financing activities (Note 49)	15,110
(12,922)	Net cash flows from Operating Activities (Note 50)	(17,522)
9,892	Investing Activities (Note 51)	877
(715)	Financing Activities (Note 52)	7,131
(3,745)	Net increase/decrease in cash and cash equivalents	(9,514)
(12,863)	Cash and cash equivalents at beginning of reporting period	(16,608)
(16,608)	Cash and cash equivalents at end of reporting period (Note 32)	(26,122)

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year end 31st March 2018.

The Accounts and Audit Regulations 2015 require the authority to produce an annual Statement of Accounts to be prepared in accordance with proper practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), supported by International Financial Reporting Standards (IFRS).

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

1.2 ACCRUALS OF EXPENDITURE & INCOME

Income and expenditure in general are accounted for in the year in which they become due whether or not the cash has been actually received or paid in the year.

Exceptions to this principle relate to electricity and similar quarterly payments which are charged at the date of the meter reading rather than being apportioned between years and wages payments for which only full week's pay is recorded. This policy is applied consistently each year and does not have a material effect on the year's accounts.

A further exception relates to wages. Only 52 weeks wages are included each year which means that the accounts do not include 1 day's pay each year. The effect of this is not considered material. Every fifth or sixth year, a 53 week year is included. 2017/18 is a 52 week year for weekly payroll costs.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor is included in the Balance Sheet.

1.3 CASH & CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are any other instrument repayable within a 24 hour period.

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

1.4 INTERNAL INTEREST

Internal interest is credited to the various funds on the basis of their respective cash flow positions. The rate of interest used is the average 7 day London Interbank Offered Rate (LIBOR).

1.5 OVERHEADS

The costs of overheads and support services are charged to portfolios in accordance with the authority's arrangements for reporting financial performance.

1.6 EMPLOYEE BENEFITS

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year-end and include salaries, paid annual and sick leave and bonuses, and are recognised as an expense for services in the year in which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements or any form of leave, earned by an employee but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary level applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to 'Surplus or Deficit on the Provision of Services' so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement is earned, but then reversed out through the Movement in Reserves Statement.

Termination Benefits

These are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer accepts voluntary redundancy and are charged on an accruals basis to the appropriate service in the Comprehensive Income & Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when it recognises costs for a restructuring.

Post Employment Benefits

Employees of the council may be members of the Local Government Pension Scheme administered by Derbyshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the council.

The Local Government Pension Scheme

The liabilities of the pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, projected earnings etc.

The assets of the pension scheme attributable to the council are included in the balance sheet at their fair value:

Quoted securities	current bid price
Unquoted securities	professional estimate
Unitised securities	current bid price
Property	market value

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income & Expenditure Statement to the revenue accounts of services for which the employees worked
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement
- Net interest on the net defined benefit liability (i.e. net interest expense for the Authority) – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income & 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 at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments
- Remeasurements comprising:
 - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income & Expenditure
 - Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income & Expenditure
- Contributions paid to Derbyshire County Council pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund in the year. In the Movement in Reserves Statement, this means that there are appropriations 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 any amounts payable to the fund but unpaid at the year end.

1.7 VALUE ADDED TAX

Value added tax (VAT) is only included in the Council's accounts to the extent that it is not recoverable from HM Revenue & Customs.

1.8 EVENTS AFTER THE BALANCE SHEET DATE

These are events 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 these events
- Those indicative of conditions arising after the reporting period – the Statement of Accounts is not adjusted, but where the event would have a material effect, disclosure is made in the notes on the nature of the event with an estimate of the financial effect

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

1.9 INVENTORIES

The majority of inventories are included in the Balance Sheet at cost, although the last invoice price has been used in some instances as a proxy for cost.

1.10 RESERVES

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

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

1.11 PROVISIONS

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate of the obligation can be made. Details of provisions are shown in the notes to the core financial statements (Page 77).

Provisions are charged as an expense to the appropriate service in the Comprehensive Income and Expenditure Statement in the year that the authority 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.

When payments are eventually made, they are charged to the provision in the Balance Sheet. The provision is reviewed at the end of each financial year and any reduction in provision is reversed and credited back to the relevant service.

1.12 INVESTMENT PROPERTY

Investment properties are those held solely to earn rentals or for capital appreciation. They are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. Investment properties will be measured at highest and best use.

These properties are not depreciated but are revalued annually according to market conditions at the year end and any gains or losses on revaluation, or disposal, are included in the Financing & Investment Income line in the Comprehensive Income and Expenditure Statement. These are subsequently reversed out of the General Fund Balance in the Movement of Reserves Statement and transferred to the Capital Adjustment Account.

Rentals from investment properties are credited to the Financing & Investment Income line and result in a gain for the General Fund.

1.13 PROPERTY, PLANT & EQUIPMENT

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure is capitalised, provided that the asset yields benefits to the authority and the services it provides. This excludes expenditure on routine repairs and maintenance which is charged direct to service revenue accounts. Capital expenditure below £25,000 on land and property assets and below £10,000 on vehicles, plant and equipment is classed as de-minimis.

Assets are initially measured at cost. The cost of assets other than by purchase is deemed to be its fair value. This is the amount that would be received on disposing of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Donated assets are measured initially at fair value. The difference between fair value and consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income & Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction are included in the balance sheet at depreciated historic cost.

- dwellings are included in the balance sheet at current value, on the basis of existing use for social housing
- all other assets are valued at current value, on the basis of existing use

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

Non property assets with short useful lives or low values are valued on a depreciated historical cost basis as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the balance sheet date, but as a minimum every five years.

Increases arising from the re-valuation are credited to the revaluation reserve to recognise unrealised gains. Exceptionally, gains may be credited to the Comprehensive Income & Expenditure Statement where they arise from the reversal of a loss previously charged to a service revenue account.

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

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service in the Comprehensive Income and Expenditure Statement

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

Intangible Assets

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

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service in the Comprehensive Income and Expenditure Statement.

Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Immediately before the initial classification of an asset as held for sale, the carrying amount of the asset is measured in accordance with the relevant section of the Code.

If there is a decrease in value, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus

or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

Council house 'Right to Buy' applications are not classed as Assets Held for Sale, as the probability of these sales are uncertain until completion takes place and are outside the authority's control.

Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. Receipts in excess of £10,000 are categorised as capital receipts. Receipts from disposals are credited to the same line on the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the revaluation reserve are transferred to the capital adjustment account.

A proportion of receipts from housing disposals have to be repaid to Government. The balance of receipts is credited to the Capital Receipts Reserve and can only be used to fund new capital investment or set aside to reduce the council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for in separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the General Fund Balance in the Movement in Reserves Statement.

1.14 DEPRECIATION & IMPAIRMENT

Depreciation is provided on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets with no determinable finite useful life (i.e. freehold land and heritage assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation charges are calculated as follows:

- dwellings and other buildings - using the straight line method over the useful life of the asset (which can be determined at the time of acquisition or revaluation).
- Vehicles - depreciated by 25% on a reducing balance basis.

- Plant and equipment - depreciated on a straight line basis.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

An individual asset or asset group is considered for splitting into components if:

- the current value of the asset is material (i.e. over £1m)
- the value of an individual component is more than 15% of total asset value
- the component life is significantly different to the life of the main asset

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

Impairment – The value of assets are reviewed at the end of each year for evidence of reductions in value. Where impairment is identified and possible losses are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised and accounted for as follows:

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

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

1.15 **HERITAGE ASSETS**

The Authority has seven classes of heritage assets. They are recognised and measured in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. All of the heritage assets identified have indefinite lives and will therefore not be subject to depreciation. The Authority's classes of heritage assets are accounted for as follows:

Historic Sites & Buildings

These assets are measured at valuation using conventional valuation approaches with the exception of Barrow Hill Railway Heritage Centre which does not lend itself to this approach and is measured at historical cost.

War Memorials/Other Monuments

The Authority has 17 war memorials together with various other monuments, including the Peace Fountain in Eastwood Park. Four war memorials and the fountain are included in the balance sheet. They were not acquired recently and reliable information on cost is not available. These assets are not insured and it is considered

impractical to obtain valuation information due to a lack of comparable transactions and the relative insignificance of the assets in purely financial terms. Therefore, with the exception of assets already on the balance sheet, no other existing assets in this category will be recognised. Assets acquired in future will be measured at historical cost.

Percent For Art

Current planning policy requires developers to include a work of art to the value of 1% of total project cost on the site. It is considered impractical to obtain reliable information on cost for most of the asset base in this class due to the difficulty of obtaining information from third parties or the difficulty of separating costs relating to artwork from other capital costs. These assets are not insured and it is considered impractical to obtain valuation information due to lack of comparable transactions and the diversity of the assets themselves. Therefore no existing assets in this class as at 1st April 2010 have been recognised on the balance sheet. Assets acquired in future will be measured at historical cost.

Rosewall Sculpture

This sculpture by Barbara Hepworth is carried on the balance sheet at valuation by a specialist dealer in modern art.

Mayoral Regalia and Civic Plate, Paintings and Porcelain

These two classes of asset are recognised on the balance sheet at valuation.

Museum Collection

The collection contains approximately 30,000 items and a high proportion of these have only minimal commercial value. Except for recent acquisitions, reliable information on cost is not available. In general, conventional valuation approaches would be unsuitable due to the number and diversity of items, together with the unique and irreplaceable nature of many of the items concerned. Some parts of the collection e.g fine arts, do lend themselves to a more conventional valuation approach. Those items within the collection with a readily ascertainable market value are recognised on the balance sheet at valuation. Assets acquired in future will be measured at historical cost.

The carrying amount of heritage assets are reviewed when there is evidence of impairment. Any impairment is recognised and measured in accordance with the Authority's general policy on impairment. Any proceeds from disposals are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

The de-minimis level for individual heritage assets is £50,000 (excluding assets that have already been recognised). For practical reasons, Mayoral Regalia, Civic Plate, Paintings and Porcelain and the Museum Collection will be treated as one group and a lower de-minimis level of £10,000 will therefore be applied to additions/disposals which impact on this group.

1.16 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 used in the provision of services during the year.

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which they can be written off
- amortisation of intangible fixed assets attributable to the service.

The authority is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis in accordance with statutory guidance). This is referred to as the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.17 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the cost of this expenditure is met from existing capital resources or borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses out the amounts charged so there is no impact on the level of council tax.

1.18 GOVERNMENT GRANTS AND CONTRIBUTIONS

Government grants and other contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant have been satisfied. Money received by the authority for which conditions have not been satisfied are carried in the Balance Sheet as creditors. Once conditions are satisfied, the grant is credited to the relevant service (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. When applied, it is posted to the Capital Adjustment Account.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). This levy will be charged on residential and retail developments with appropriate planning consent. The income generated by this levy will be used to fund infrastructure projects to support the development of the area.

CIL is received without outstanding conditions and so is recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions outlined above. CIL charges will generally be used to fund capital expenditure. However, 15% of the levy will be retained for neighbourhood development.

1.19 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 asset from the lessor to the lessee. All other leases are classified as operating leases.

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

Arrangements which 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.

Finance Leases

Assets held under finance leases are recognised on the balance sheet. Rental payments under finance leases are apportioned between the finance charge and the principal element, i.e. the reduction of the liability to pay future rentals. The finance element of rentals is charged to the Financing & Investment Income line in the Comprehensive Income and Expenditure Statement.

Operating Leases

Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service using the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

The Authority as Lessor

The Council leases some of its properties to third parties. The value of these assets is included in the Balance Sheet.

Rent is charged for the use of these properties and is included in the relevant line in the Comprehensive Income & Expenditure Statement and credits are made on a straight-line basis over the life of the lease.

1.20 **FINANCIAL INSTRUMENTS**

Financial Liabilities

Financial liabilities are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income & Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. This means that the amount in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income & Expenditure Statement is the amount payable for the year in the loan agreement.

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 & Expenditure Statement in the year of repurchase/settlement. 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 deducted or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income & Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Financial Assets

Financial assets are classified into three types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments
- Assets at Fair Value through Profit or Loss – assets that are held for trading

Loans & Receivables are initially measured at fair value and carried at amortised cost. Annual credits to the Comprehensive Income & Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest so the amount in the balance sheet is the outstanding principle receivable and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year per the loan agreement.

The authority may also make loans to the voluntary sector at less than market rates. The accounting treatment of these 'soft loans' reflects the fact that the authority is locking itself into an arrangement where it will incur a loss of interest over the life of the loan. This lost interest is charged to the relevant service area in the Comprehensive Income & Expenditure Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under a contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement.

Any gains and losses arising on derecognition of an asset are credited/debited to the Financing and Investment Income line in the Comprehensive Income & Expenditure Statement.

Available for Sale Assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income line in the Comprehensive Income & Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income & Expenditure Statement when it becomes receivable.

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

- Instruments with quoted market prices – market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations

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

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

Changes in fair value are balanced by an entry in the Available for Sale reserve and the gain/loss recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred; these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement, along with any net gain/loss for the asset accumulated in the reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income line in the Comprehensive Income & Expenditure Statement.

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

Assets at Fair Value through Profit or Loss are, under the provisions of the Code, those assets that meet the definition of 'held for trading' contained in FRS 26. The authority has chosen to classify its UK gilt holding at fair value through profit or loss.

1.21 INTEREST IN COMPANIES AND OTHER ENTITIES

If the Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures, it is required to prepare group accounts.

There were no group accounts identified for 2017/18.

1.22 JOINTLY CONTROLLED OPERATIONS

Jointly controlled operations are activities undertaken by the Authority in conjunction with other organisations which involve the use of assets and resources of one or more of the parties but which does not establish a separate entity.

The Council has a joint operation with Bolsover District Council and North East Derbyshire District Council who together operate the Chesterfield & District Joint Crematorium. The Council recognises on its balance sheet, its share of the assets that it controls and liabilities incurred and its share of the expenditure and income earned from the operation on its Comprehensive Income & Expenditure Statement. Note 54 on page 93 provides further details.

1.23 CONTINGENT ASSETS/LIABILITIES

Contingent assets/liabilities are not recognised in the accounting statements but, where they exist, they are disclosed by way of a note to the accounts.

1.24 PRIOR PERIOD ADJUSTMENTS

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 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 and relevant information on the Authority's financial position. Any change is applied retrospectively 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 adjusting opening balances and comparative amounts for the prior period.

1.25 PRIVATE PUBLIC PARTNERSHIP

The Council has entered a contract for the provision of certain services by a private sector partner. The charge made by them for services provided under this agreement is charged to the relevant service line of the Comprehensive Income & Expenditure Statement.

Any changes to the value of assets as a result of this contract will be reflected in the Balance Sheet as they arise.

1.26 COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

From 2013/14, the Code requires that where authorities have transactions that include amounts that are reclassifiable in the surplus/deficit on the provision of services, items

listed in the Other Comprehensive Income & Expenditure section of the statement must be grouped into those items that will not be subsequently reclassified and those that will. This authority does not have any transactions that are reclassifiable and has not therefore grouped the items into two separate categories.

1.27 FAIR VALUE MEASUREMENT

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

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

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability, assuming that market participants would act in their economic best interest. When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using or selling the asset in its highest and best use.

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

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

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

1.28 COUNCIL TAX AND NON-DOMESTIC RATES

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

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be

included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The balance sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances, prepayments and appeals.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting for 2018/19 requires the disclosure of information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The relevant standards introduced in the 2018/19 Code are:

IFRS 9 Financial Instruments – this will introduce changes to the classification and measurement of financial assets and introduce an 'expected credit loss' model for impairment of those assets. The impact will be that assets currently classified as loans and receivables, available for sale and fair value through profit or loss will be reclassified to either amortised cost, fair value through other comprehensive income or fair value through profit or loss based on the contractual cashflows and business model for managing those assets. An initial assessment of these assets has not identified a need for impairment.

IFRS 15 Revenue from Contracts with Customers – introduces new requirements for the recognition of revenue. The Authority does not have any material revenue streams within the scope of this new standard.

IAS 7 Statement of Cash Flows – may potentially require additional analysis of cash flows from financing activities within a disclosure note to the Cash Flow statement.

IAS 12 Income Taxes – this applies to deferred tax assets related to debt instruments measured at fair value. The authority does not currently hold any such debt instruments.

It is not anticipated that the above amendments will have a material impact on the information provided in the Council's financial statements.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Authority has an outsourcing agreement for back office functions with Arvato. It has determined that this arrangement constitutes a service concession arrangement.

4. **ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31st March 2018, for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements including mortality rates, expected return on fund assets and future salary rate increases. A firm of actuaries are engaged by the pension fund administrator to advice on the assumptions to be applied.	These assumptions interact in complex ways. During 2017/18, the actuaries advised that the net pensions liability had reduced by £74k because of estimates being corrected as a result of experience and reduced by £5.914m attributable to updating their assumptions.
Arrears	At 31 st March 2018, the Authority had a balance of sundry debtors of £4.2m. A review of significant balances based on age profile and likelihood of recovery, suggested that an impairment provision of £1.9m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a 1% increase in the level of impairment provision would require an additional amount of £30k to be found.
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that this level of spending on repairs and maintenance can be sustained, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings, including council houses, would increase by £1.1m for every year that useful lives had to be reduced.
Fair value measurement	When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (Level 1 inputs), valuation techniques such as quoted prices for similar assets in active markets or discounted cash flow are	The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for

	<p>used. Where possible, the inputs to the valuation are based on observable data, but where this is not possible, judgement is required in establishing fair values, including considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value amount.</p> <p>Where Level 1 inputs are not available, the authority uses relevant experts to identify the most appropriate valuation technique to determine fair value. Information about the valuation techniques and inputs used in determining fair value is disclosed in notes 22, 26 and 38.</p>	<p>investment properties) and discount rates, adjusted for regional factors, for investment properties and some financial assets.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement.</p>
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A further source of uncertainty has arisen due to the introduction of the Business Rates Retention Scheme from 1st April 2014. Local Authorities are now liable for a proportion of successful appeals against business rates in their proportionate shares. Therefore a provision has been recognised in the accounts to cover this liability. It is difficult to judge the size of the provision required due to the high level of uncertainty as to when and if the appeals will be decided and which appeals will be successful. The provision has been calculated using information from the Valuation Office ratings list of appeals and an analysis of successful appeals to date by an independent company.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

The programme of capital expenditure on Council Housing remained high at £14.1m in 2017/18. This spending is aimed at maintaining dwellings at the decent homes standard. It is anticipated that this level of investment will continue into future years.

6. EVENTS AFTER THE BALANCE SHEET DATE

The statement of accounts was authorised for issue on 25/05/2018 by the Director of Finance, Kevin Hanlon FCCA, ACMA, GCMA. This is also the date up to which events after 31st March 2018 have been considered.

7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS: ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS

The note below shows the difference between the accounting basis and funding basis.

Adjustments between Funding and Accounting Basis 2017/18				
Portfolios	Adjustment for Capital Purposes £000	Net change for Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Leader of the Council	-	13	-	13
Deputy Leader of the Council	-	(931)	-	(931)
Economic Growth	(5,362)	110	(233)	(5,485)
Town Centre & Visitor Economy	4,099	244	-	4,343
Health & Wellbeing	923	916	-	1,839
Homes & Customers	(262)	1,020	(42)	716
Governance	9	186	-	195
Business Transformation	297	2,035	-	2,332
Housing Revenue Account	2,425	453	(1,972)	906
Net Cost of Services	2,129	4,046	(2,247)	3,928
Other income & expenditure from Expenditure & Funding Analysis	410	-	928	1,338
Difference between General Fund deficit & CIES deficit on Provision of Services	2,539	4,046	(1,319)	5,266

Adjustments between Funding and Accounting Basis 2016/17				
Portfolios	Adjustment for Capital Purposes (Restated) £000	Net change for Pension Adjustments (Restated) £000	Other Differences (Restated) £000	Total Adjustments (Restated) £000
Leader of the Council	-	105	-	105
Deputy Leader of the Council	-	(352)	(1)	(353)
Economic Growth	5,435	62	(500)	4,997
Town Centre & Visitor Economy	(831)	509	(2)	(324)
Health & Wellbeing	(230)	38	1	(191)
Homes & Customers	71	766	(35)	802
Governance	8	1,431	-	1,439
Business Transformation	294	9	-	303
Housing Revenue Account	(60,011)	126	(2,010)	(61,895)
Net Cost of Services	(55,264)	2,694	(2,547)	(55,117)
Other income & expenditure from Expenditure & Funding Analysis	(401)	-	(2,123)	(2,524)
Difference between General Fund deficit & CIES deficit on Provision of Services	(55,665)	2,694	(4,670)	(57,641)

Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the service line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting

practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied during the year. It also includes capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** – this represents the removal of the employer contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:

- **For financing and investment income and expenditure** – recognises adjustments to the General Fund for the timing differences for premiums and discounts
- **For taxation and non-specific grant income and expenditure** – represents the differences between what is chargeable under statutory regulations for council tax and business rate income that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be included in future surplus/deficit on the Collection Fund.

8. SEGMENTAL INCOME

The amount of income received from external sources is shown below on a segmental basis.

Portfolios	Income from Services	
	2017/18 £000	2016/17 (Restated) £000
Leader of the Council	-	-
Deputy Leader of the Council	(19)	(3)
Economic Growth	(3,480)	(3,438)
Town Centre & Visitor Economy	(8,792)	(9,279)
Health & Wellbeing	(6,168)	(5,754)
Homes & Customer	(35,319)	(37,068)
Governance	(199)	(264)
Business Transformation	(169)	(161)
Housing Revenue Account	(39,262)	(39,805)
Total Income analysed on a segmental basis	(93,408)	(95,772)

9. **EXPENDITURE AND INCOME ANALYSED BY NATURE**

The authority's expenditure and income is analysed as follows:

	2017/18 £000	2016/17 £000
Expenditure		
Employee expenses	16,579	14,383
Other service expenses	66,304	69,258
Support service recharges	11,718	12,418
Depreciation, amortisation and impairment	23,896	(40,557)
Transfers to/from reserves	46	(32)
Interest payments	6,856	7,723
Precepts	418	404
Payments to Housing Capital Receipts Pool	925	933
Gain/Loss on Disposal of Fixed Assets	1,575	1,150
Total Expenditure	128,317	65,680
Income		
Fees, Charges & Other Service Income	(56,106)	(57,496)
Government Grants	(47,392)	(44,265)
Recharges & Other Income	(16,469)	(15,718)
Interest & Investment Income	(237)	(367)
Income from Business Rates	(2,769)	(3,379)
Income from Council Tax	(4,869)	(4,683)
Total Income	(127,842)	(125,908)
Surplus/Deficit on Provision of Services	475	(60,228)

10. **ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

Income and expenditure charged to the General Fund and which must be taken into account in determining a local authority budget requirement and therefore its council tax is determined by statute and non-statutory proper practices rather than being in accordance with IFRS requirements.

Whilst the amounts which must be included in the Comprehensive Income and Expenditure Statement and the amounts required by statute and non-statutory practices to be included in the General Fund are largely the same, there are a number of differences.

This note details the adjustments that are made to the total comprehensive income and expenditure recognised in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure.

	Usable Reserves					
2017/18	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<u>Adjustments primarily involving the Capital Adjustment Account:</u>						
Reversal of items debited/credited to Comprehensive Income & Expenditure Statement						
Depreciation, impairment & revaluation losses of non-current assets	2,141	10,327				(12,468)
Non-current assets written off on disposal as part of gain/loss on disposal to CIES	112	7,354				(7,466)
Movement in market value of Investment Properties	3,391	848				(4,239)
Amortisation of intangible assets	129					(129)
Capital grants & contributions applied	(8,909)				5,256	3,653
Revenue expenditure funded from capital under statute	2,951					(2,951)
Insertion of items not debited/credited to Comprehensive Income & Expenditure Statement						
Statutory provision for financing of capital investment	(232)					232
Capital expenditure charged against General Fund and HRA balances	(393)					393
Voluntary Repayment of Debt		(2,015)				2,015
Community Infrastructure Levy (CIL) Receipts	(234)				234	-
Transfers between Other Reserves	(42)	42	5		(2)	(3)
<u>Adjustments primarily involving Capital Receipts Reserve:</u>						
Use of Capital Receipts Reserve to finance new capital expenditure			(3,819)			3,819
Contribution from Capital Receipts Reserve to finance payments to Government capital receipts pool	925		(925)			-
Transfer of cash sale proceeds credited as part of gain/loss on disposal to CIES	(235)	(5,733)	5,968			-
<u>Adjustment primarily involving Major Repairs Reserve:</u>						
HRA depreciation & impairment		(9,196)		9,196		-
Excess of Major Repairs Allowance Over HRA depreciation		(1,176)		1,176		-
Use of Major Repairs Reserve to finance new capital expenditure				(10,372)		10,372
<u>Adjustments primarily involving the Financial Instruments Adjustment Account:</u>						
Amounts by which finance costs charged to Comprehensive Income & Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	(6)					6
<u>Adjustments primarily involving Pensions Reserve:</u>						
Reversal of items relating to retirement benefits debited/credited to	8,411	453				(8,864)

Comprehensive Income & Expenditure Statement						
Employers contributions payable to Derbyshire County Council Pension Fund and retirement benefits payable direct to pensioners in the year	(4,817)					4,817
<u>Adjustments primarily involving the Collection Fund Adjustment Account:</u>						
Amount by which council tax and business rate income credited to Comprehensive Income & Expenditure Statement is different from council tax and business rate income calculated for year in accordance with statutory requirements	1,167					(1,167)
<u>Adjustment primarily involving the Accumulated Absences Account:</u>						
Amount by which salaries charged to Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	2	1				(3)
<u>Total Adjustments</u>	4,361	905	1229	0	5,488	(11,983)

	Usable Reserves					
2016/17	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<u>Adjustments primarily involving the Capital Adjustment Account:</u>						
<u>Reversal of items debited/credited to Comprehensive Income & Expenditure Statement</u>						
Depreciation, impairment & revaluation losses of non-current assets	1,944	(50,878)				48,934
Non-current assets written off on disposal as part of gain/loss on disposal to CIES	1,916	6,362				(8,278)
Movement in market value of Investment Properties	2,929	(201)				(2,728)
Amortisation of intangible assets	134					(134)
Capital grants & contributions applied	(4,219)				181	4,038
Revenue expenditure funded from capital under statute	3,957					(3,957)
<u>Insertion of items not debited/credited to Comprehensive Income & Expenditure Statement</u>						
Statutory provision for financing of capital investment	(466)					466
Capital expenditure charged against General Fund and HRA balances	(1,367)					1,367
Voluntary Repayment of Debt		(2,046)				2,046
Community Infrastructure Levy (CIL) Receipts	(500)				500	
Transfers between Other Reserves	(35)	35	4			(4)
<u>Adjustments primarily involving</u>						

Capital Receipts Reserve:						
Use of Capital Receipts Reserve to finance new capital expenditure			(3,384)			3,384
Contribution from Capital Receipts Reserve to finance payments to Government capital receipts pool	934		(934)			
Transfer of cash sale proceeds credited as part of gain/loss on disposal to CIES	(1,883)	(5,244)	7,127			
Adjustment primarily involving Major Repairs Reserve:						
HRA depreciation & impairment		(7,579)		7,579		
Excess of Major Repairs Allowance Over HRA depreciation		(2,470)		2,470		
Use of Major Repairs Reserve to finance new capital expenditure				(10,049)		10,049
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amounts by which finance costs charged to Comprehensive Income & Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	(8)					8
Adjustments primarily involving Pensions Reserve:						
Reversal of items relating to retirement benefits debited/credited to Comprehensive Income & Expenditure Statement	7,307	126				(7,433)
Employers contributions payable to Derbyshire County Council Pension Fund and retirement benefits payable direct to pensioners in the year	(4,739)					4,739
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and business rate income credited to Comprehensive Income & Expenditure Statement is different from council tax and business rate income calculated for year in accordance with statutory requirements	(1,649)					1,649
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which salaries charged to Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements						
Total Adjustments	4,255	(61,895)	2,813	0	681	54,146

11. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure.

	Balance 1/4/2016 £000	Transfers In 2016/17 £000	Transfers Out 2016/17 £000	Balance 31/03/2017 £000	Transfers In 2017/18 £000	Transfers Out 2017/18 £000	Balance 31/03/2018 £000
General Fund							
Vehicles & Plant	849	423	(365)	907	461	(526)	842
Information Technology	132	608	(364)	376	237	(546)	67
Crematorium							
Mercury Abatement	222	58	-	280	59	-	339
Capital Improvements	427	107	(367)	167	49	(53)	163
Capital Reserves	1,630	1,196	(1,096)	1,730	806	(1,125)	1,411
General Fund							
Invest to Save	275	-	(23)	252	-	(221)	31
Budget Risk Reserve	1,043	205	(802)	446	346	(109)	683
Service Improvement	989	34	(409)	614	34	(309)	339
Property Improvement	743	1,347	(1,537)	553	1,069	(1,268)	354
Insurance	567	30	-	597	-	-	597
Tenants Property	720	256	(562)	414	358	(192)	580
Tapton Innovation Centre	243	26	(114)	155	25	(90)	90
DSO/DLO Reserve	363	90	(48)	405	172	-	577
Legal Services	12	-	(12)	-	-	-	-
Planning Inquiry	260	-	(20)	240	-	(4)	236
Flood Restoration	74	-	-	74	-	(20)	54
Asset Management	17	-	(1)	16	-	(16)	-
Elections Equipment	2	-	-	2	-	-	2
Museum Exhibits	25	-	-	25	-	-	25
Internal Audit Consortium	11	7	(11)	7	-	-	7
Risk Management Fund	5	5	(6)	4	7	(6)	5
S106	290	14	(31)	273	-	(19)	254
Revenue Grants Unapplied	528	104	(168)	464	157	(72)	549
MMI Insurance Reserve	366	-	(1)	365	1	-	366
Severn Trent Water	30	-	-	30	-	(30)	-
Barrow Hill Bridge	40	10	(40)	10	5	-	15
Business Rates	1,438	250	(1,186)	502	1,435	-	1,937
Repaid Improvement Grants	255	69	(90)	234	72	(84)	222
Building Control	20	13	(33)	-	-	-	-
Northern Gateway	-	200	-	200	80	-	280
Theatre Restoration	-	291	(22)	269	101	(3)	367
Deficit Reduction	-	407	-	407	-	(150)	257
Digital Innovation	-	-	-	-	596	-	596
Service Redesign	-	-	-	-	750	-	750
Crematorium							
Crematorium Balance	412	-	(250)	162	174	(182)	154
Cremator Repairs	48	11	-	59	124	-	183
Crematorium Equipment	15	1	(15)	1	2	-	3
Organ Reserve	3	1	-	4	1	-	5
Revenue Reserves	8,794	3,371	(5,381)	6,784	5,509	(2,775)	9,518
Total Earmarked Reserves	10,424	4,567	(6,477)	8,514	6,315	(3,900)	10,929
General Fund Working Balance	1,500	-	-	1,500	-	-	1,500
HRA							
Housing Revenue Account Balance	20,471	4,506	-	24,977	2,440	-	27,417
Major Repairs Reserve (HRA)	-	10,049	(10,049)	-	10,372	(10,372)	-
Revenue Grants Unapplied	352	22	(32)	342	42	(105)	279
Total HRA Reserves	20,823	14,577	(10,081)	25,319	12,854	(10,477)	27,696

12. OTHER OPERATING EXPENDITURE

	2017/18 £000	2016/17 £000
Parish council precepts	418	404
Payments to Housing Capital Receipts Pool	925	934
(Gains)/losses on disposal of non-current assets	1,574	1,150
Other	40	46
TOTAL	2,957	2,534

13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2017/18 £000	2016/17 £000
Interest payable & similar charges	5,169	5,303
Net interest on net defined benefit liability	1,686	2,143
Interest and Investment Income	(237)	(367)
Income and expenditure in relation to Investment Properties	(2,607)	(3,239)
(Gain)/loss on disposal of Investment Properties	-	-
Changes in fair value of Investment Properties	4,137	2,728
(Gain)/loss on trading accounts	(1,141)	(454)
TOTAL	7,007	6,114

14. TAXATION AND NON SPECIFIC GRANT INCOMES

	2017/18 £000	2016/17 £000
Council tax income	(4,869)	(4,684)
Business Rates income & expenditure	(2,769)	(3,379)
Non-ringfenced government grants	(3,307)	(3,466)
Capital grants and contributions	(5,615)	(199)
TOTAL	(16,560)	(11,728)

15. OTHER TRADING UNDERTAKINGS

In 2017/18, the following trading activities were reported within the Comprehensive Income & Expenditure Statement. The Service Reporting Code of Practice requires trading accounts that are an integral part of the total cost of a service to be consolidated fully into the total cost of that service.

Accordingly, the following activities have been consolidated into the relevant service area within the Cost of Services Section of the Comprehensive Income & Expenditure Statement and are shown below as a disclosure note.

	2017/18			2016/17
	Gross Expenditure £000	Income £000	(Surplus)/ Deficit £000	(Surplus)/ Deficit £000
Markets	1,000	(1,118)	(118)	(155)
Trade Refuse	519	(639)	(120)	(120)
Industrial Units	1,678	(2,995)	(1,317)	(1,333)
Town Centre shops	2,171	(3,092)	(921)	(901)
	5,368	(7,844)	(2,476)	(2,509)

Markets – this includes the open market, car boot sale and the Market Hall – the trading objective is to at least break even.

Trade Refuse – this service is open to all businesses operating in the borough – the trading objective is to at least break even.

Industrial/Commercial Units – the authority lets 233 units throughout the borough. The objective is to support business development and create job opportunities. Incentives to potential occupiers may be offered and the target is to secure at least 90% occupancy levels, provide employment and maximise revenue from the property portfolio.

Town Centre Shops – the authority lets 73 units in Chesterfield & Staveley town centres. The objective is to create a vibrant and diverse economy, to secure employment and to maximise revenue from the property portfolio.

16. OFFICERS' REMUNERATION

The number of all employees whose remuneration excluding pension contributions was £50,000 or more in bands of £5,000 were:

Remuneration Band	No. of Employees	
	2017/18	2016/17
£50,000 - £54,999	1	5
£55,000 - £59,999	2	2
£60,000 - £64,999	3	1
£65,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	1	-
£85,000 - £89,999	2	2
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	1	1

The following tables set out the remuneration disclosure for Senior Officers whose salary is less than £150,000 but equal to or more than £50,000 per year (these are also included in the table above).

<u>2017/18</u>	Salary (incl fees & allowances)	Expense Allowances	Compensation for loss of Employment	Total Remuneration excluding pension contributions 2017/18	Pension Contributions	Total Remuneration incl pension contributions 2017/18
Post title	£	£	£	£	£	£
Chief Executive	106,726	457	-	107,183	15,137	122,320
Executive Director	88,443	78	-	88,521	12,559	101,080
Executive Director	88,443	23	-	88,466	12,559	101,025
Director of Finance & Resources	80,800	278	-	81,078	11,474	92,552
Total	364,412	836	-	365,248	51,729	416,977

2016/17	Salary (incl fees & allowances)	Expense Allowances	Compensation for loss of Employment	Total Remuneration excluding pension contributions 2016/17	Pension Contributions	Total Remuneration incl pension contributions 2016/17
<u>Post title</u>	£	£	£	£	£	£
Chief Executive	105,671	742	-	106,413	13,932	120,345
Executive Director	87,567	-	-	87,567	11,559	99,126
Executive Director	87,567	424	-	87,991	11,559	99,550
Chief Finance Officer (a)	16,870	372	36,882	54,124	2,227	56,351
Acting Chief Finance Officer (b)	21,008	-	-	21,008	2,773	23,781
Director of Finance & Resources (c)	32,000	269	-	32,269	4,224	36,493
Total	350,683	1,807	36,882	389,372	46,274	435,646

- (a) The Chief Finance Officer left on 30/6/16 following a restructure of the Corporate Management Team.
- (b) The Acting Chief Finance Officer covered the role on a temporary basis from 1/7/16 to 6/11/16.
- (c) The Director of Finance & Resources commenced in this new role from 7/11/16.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. The total cost has been agreed and charged to the Comprehensive Income & Expenditure Statement in the year indicated.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
							£000	£000
£0 - £20,000	-	20	-	9	-	29	-	265
£20,001 - £40,000	-	-	-	6	-	6	-	149
£40,001 - £60,000	1	-	-	-	1	-	45	-
Total	1	20	-	15	1	35	45	414

17. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Scheme

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post-employment benefits. Although the benefits of this scheme are not actually payable until employees retire, the authority has a commitment to make the payments and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme and Derbyshire County Council administers the scheme. It is a funded defined benefit career average revalued earnings scheme, meaning that the Council and employees pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Derbyshire pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of Derbyshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against the council tax is based on the cash payable to the pension fund in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:-

Transactions Relating to Retirement Benefits		
Comprehensive Income & Expenditure Statement	2017/18 £000	2016/17 £000
Cost of Services		
Service cost comprising:		
• Current service cost	7,133	5,001
• Past service costs	45	289
Financing & Investment Income and Expenditure		
• Net interest expense	1,686	2,144
Total Post Employment Benefit Charged to Surplus/Deficit on Provision of Services	8,864	7,434
Remeasurement of net defined benefit liability comprising:		
• Return on plan assets(excluding amount included in net interest expense)	(1,467)	(22,461)
• Actuarial gains and losses arising on changes in demographic assumptions	-	(2,594)
• Actuarial gains and losses arising on changes in financial assumptions	(4,483)	38,854
• Other	(74)	(13,751)
Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	2,840	7,482

Movement in Reserves Statement		
• Reversal of net charges made to Surplus/Deficit on Provision of Services for post employment benefits in accordance with the Code	(8,864)	(7,434)
Actual amount charged against General Fund Balance for pensions in year		
• Employers' contributions payable to scheme	4,817	4,739

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	2017/18 £000	2016/17 £000
Present value of defined benefit obligation	236,258	232,932
Fair value of plan assets	(174,956)	(169,662)
Net liability arising from defined benefit obligation	61,302	63,270

Reconciliation of Movements in the Fair Value of Scheme Assets

	2017/18 £000	2016/17 £000
Opening fair value of scheme assets	169,662	142,972
Interest income	4,401	4,989
Re-measurement gain/loss:		
• Return on plan assets, excluding amount included in net interest expense	1,458	22,353
Contribution from employer	4,781	4,703
Contributions from employees into the scheme	1,125	1,106
Benefits paid	(6,471)	(6,461)
Closing fair value of scheme assets	174,956	169,662

Reconciliation of Present Value of Scheme Liabilities

	2017/18 £000	2016/17 £000
Opening balance at 1 st April	232,932	203,646
Current service cost	7,082	4,970
Interest cost	6,075	7,121
Contribution from scheme participants	1,125	1,106
Remeasurement gains/losses:		
• Actuarial gains/losses arising from changes in demographic assumptions	-	(2,580)
• Actuarial gains/losses arising from changes in financial assumptions	(4,456)	38,608
• Other	(74)	(13,767)
Past service cost	45	289
Benefits paid	(6,471)	(6,461)
Closing balance at 31st March	236,258	232,932

Local Government Pension Scheme Assets

	Fair Value of Scheme Assets							
	2017/18				2016/17			
	Quoted prices in active markets £000	Quoted prices not in active markets £000	Total £000	% of Total Assets	Quoted prices in active markets £000	Quoted prices not in active markets £000	Total £000	% of Total Assets
Cash and cash equivalents	-	8,406	8,406	5%	-	7,820	7,820	5%
Equity Securities								
• Consumer	11,246	-	11,246	6%	12,934	-	12,934	8%
• Manufacturing	15,364	-	15,364	9%	15,193	-	15,193	9%
• Energy & utilities	9,574	-	9,574	6%	10,245	-	10,245	6%
• Financial institutions	12,112	-	12,112	7%	12,158	-	12,158	7%
• Health and care	6,035	-	6,035	3%	6,749	-	6,749	4%
• Information technology	5,201	-	5,201	3%	4,315	-	4,315	2%
• Other	19,935	-	19,935	11%	18,669	-	18,669	11%
Sub-total Equity	79,467	-	79,467	45%	80,263	-	80,263	47%
Debt Securities								
• Corporate	-	13,783	13,783	8%	-	10,277	10,277	6%
• UK Government	16,539	-	16,539	9%	17,840	-	17,840	10%
• Other	2,726	-	2,726	2%	3,106	-	3,106	2%
Sub-total Debt	19,265	13,783	33,048	19%	20,946	10,277	31,223	18%
Property								
• UK Property	-	11,510	11,510	7%	-	10,858	10,858	6%
Private Equity								
• All	2,378	1,160	3,538	2%	2,334	563	2,897	2%
Investment Funds & Unit Trusts								
• Equities	33,296	-	33,296	19%	33,617	-	33,617	20%
• Infrastructure	2,685	3,006	5,691	3%	1,945	1,039	2,984	2%
Sub-total Investment Funds & Unit Trusts	35,981	3,006	38,987	22%	35,562	1,039	36,601	22%
Total Assets	137,091	37,865	174,956	100%	139,105	30,557	169,662	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions payable in future years dependent on assumptions about mortality rates, salary levels etc. The scheme has been assessed by Hymans Robertson, an independent firm of actuaries, based on the latest full valuation of the scheme at 31st March 2016.

The significant assumptions used by the actuary are:

	2017/18	2016/17
Mortality assumptions:		
Longevity at 65 for current pensioners		
• Men	21.9	21.9
• Women	24.4	24.4
Longevity at 65 for future pensioners		
• Men	23.9	23.9
• Women	26.5	26.5
Rate of inflation	2.4%	2.4%
Rate of increase in salaries	2.9%	2.9%
Rate of increase in pensions	2.9%	2.9%
Rate for discounting scheme liabilities	2.7%	2.6%
Take up of option to convert annual pension into retirement lump sum – pre April 2008 service	50%	50%
Take up of option to convert annual pension into retirement lump sum – post April 2008 service	75%	75%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated.

The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumption used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme	Approximate % increase to Employer Liability	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	10%	23,219
0.5% increase in Salary Increase Rate	1%	3,264
0.5% increase in Pension Increase Rate	8%	19,645

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are reviewed as part of the triennial valuation process. The next triennial valuation is due to be completed as at 31st March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Act 2013. Under the Act, the Local Government Pension Scheme may not provide benefits in relation to service after 31st March 2014. The Act provides

for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in 2018/19 is £4.454m.

The weighted average duration of the defined benefit obligation for scheme members is 23.1 years for active members, 22.3 years for deferred members and 11.3 years for pensioner members. Taken together the weighted average duration for 17/18 is 17.1 years.

With the exception of the tables detailing transactions in the Comprehensive Income & Expenditure Statement and the Movement in Reserves Statement, the pension fund details in note 17 do not include Chesterfield Borough Council's share of the Crematorium pension fund which has its own separate fund.

18. MEMBERS' ALLOWANCES

The allowances and expenses paid to Members were as follows:

	2017/18 £000	2016/17 £000
Special Responsibility & Other Allowances	145	143
Basic Responsibility Allowances	287	285
Members expenses	3	4
TOTAL	435	432

A schedule of the amounts paid to individual Members is published each year in the Council's newspaper. The schedule can also be viewed on the Council's web-site (www.chesterfield.gov.uk).

19. GRANT INCOME

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2017/18.

	2017/18 £000	2016/17 £000
Credited to Taxation & Non Specific Grant Income		
Revenue Support Grant	1,239	1,836
New Homes Bonus Grant	690	909
Sport England	-	30
Sheffield City Region	5,369	169
Dept Communities & Local Government: - • Small Business Rate Relief	1,377	721
Other	246	-
TOTAL	8,921	3,665

Credited to Services:		
Capital		
Sheffield City Region	2,037	2,879
Derbyshire Better Care Fund	1,136	952
Environment Agency	117	202
Other	4	4
Revenue		
Dept for Work & Pensions – Housing Benefits	34,330	36,087
Dept Communities & Local Government	230	232
Lottery Fund	-	3
Other Government Grants	39	24
Derbyshire County Council:		
- Supporting people	316	297
- Highways agency	130	130
- Other	18	18
Other Local Authorities	16	35
S106 Contributions	26	42
TOTAL	38,399	40,905

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will/may require the monies to be returned. The balances at year end are as follows:

	2017/18 £000	2016/17 £000
Capital Grants Receipts in Advance		
Environment Agency	53	90
Derbyshire County Council	3	4
S106 Contributions	69	53
Other	11	11
TOTAL	136	158

20. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by KPMG who are our appointed auditor.

	2017/18 £'000	2016/17 £'000
Audit of Accounts	52	52
Certification of Grant Claims	6	6
Non-Audit Services	3	3
Total	61	61

21. MOVEMENTS IN PROPERTY, PLANT & EQUIPMENT

<u>Movements in 2017/18</u>	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra- structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construc- tion £000	TOTAL £000
<u>Gross Book Value</u>								
Brought forward 1 April	343,059	73,461	2,849	6,061	4,072	1,241	1,238	431,981
Additions	13,782	453	121				2,230	16,586
Revals - Reval'n Res	1,670	(244)						1,426
Revals - surplus/deficit on provision of services	(9,836)	(101)						(9,937)
Derecog'n - disposals	(4,848)	(137)						(4,985)
Derecog'n - other	(2,749)							(2,749)
Impairment losses rev in s/d on provision of servs								-
Other movements	(606)					594		(12)
GBV at 31 March 18	340,472	73,432	2,970	6,061	4,072	1,835	3,468	432,310
<u>Accumulated Depreciation & Impairment</u>								
Brought forward 1 April	-	(4,024)	(2,352)	(3,147)	-	(3)	-	(9,526)
Additions - depreciation	(9,087)	(1,851)	(131)	(240)		(4)		(11,313)
Additions - impairment								-
Revals - Reval'n Res		1,224						1,224
Revals - surplus/deficit on provision of services	8,724	75						8,799
Derecog'n - disposals	149							149
Derecog'n - other	202							202
Impairment losses rev in s/d on provision of servs								-
Other movements	12							12
Depreciation & Impairment at 31 March 18	-	(4,576)	(2,483)	(3,387)	-	(7)	-	(10,453)
Net Book Value B/fwd	343,059	69,437	497	2,914	4,072	1,238	1,238	422,455
Net Book Value at 31 March 18	340,472	68,856	487	2,674	4,072	1,828	3,468	421,857

<u>Movements in 2016/17</u>	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construc tion	TOTAL
£000	£000	£000	£000	£000	£000	£000	£000	£000
<u>Gross Book Value</u>								
Brought forward 1 April	281,712	70,756	2,752	6,061	4,072	1,241	309	366,903
Additions	12,740	962	97			252	446	14,497
Revals - Reval'n Res	4,298	3,040				9		7,347
Revals - surplus/deficit on provision of services	51,264	(953)				(9)		50,302
Derecog'n - disposals	(4,319)							(4,319)
Derecog'n - other	(2,146)	(344)				(252)		(2,742)
Reclassified to/from Held For Sale								-
Other movements	(490)						483	(7)
GBV at 31 March 17	343,059	73,461	2,849	6,061	4,072	1,241	1,238	431,981
<u>Accumulated Depreciation & Impairment</u>								
Brought forward 1 April	-	(3,266)	(2,205)	(2,906)	-	(8)	-	(8,385)
Additions - depreciation	(7,486)	(1,838)	(147)	(241)		(4)		(9,716)
Additions - impairment								-
Revals - Reval'n Res								-
Revals - surplus/deficit on provision of services	7,194	1,080				9		8,283
Derecog'n - disposals	128							128
Derecog'n - other	157							157
Reclassified to/from Held For Sale								-
Other movements	7							7
Depreciation & Impairment at 31 March 17	-	(4,024)	(2,352)	(3,147)	-	(3)	-	(9,526)
Net Book Value B/fwd	281,712	67,490	547	3,155	4,072	1,233	309	358,518
Net Book Value at 31 March 17	343,059	69,437	497	2,914	4,072	1,238	1,238	422,455

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Council Dwellings:	9 – 40 years
Other Land & Buildings:	2 – 80 years
Vehicles, Plant, Furniture & Equipment:	5 – 10 years
Infrastructure	20 – 40 years

22. SURPLUS ASSETS

Fair Value Hierarchy

Details of surplus assets and information about their fair value hierarchy at 31st March are as follows:

Fair value measurements:	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 st March 18 £000
Community Rooms	81	-	81
Former Sports Centre	-	45	45
Land	-	1,702	1,702
Total 2017/18	81	1,747	1,828

Fair value measurements:	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 st March 17 £000
Community Rooms	85	-	85
Former Sports Centre	-	45	45
Land	-	1,108	1,108
Total 2016/17	85	1,153	1,238

There were no transfers between Levels 2 and 3 during the year.

Valuation Techniques used to Determine Level 2 and 3 Fair Values

Significant Observable Inputs – Level 2

The fair value for the surplus assets has been based on a market approach using current market evidence including recent sale prices/rentals achieved and other relevant information for similar assets within the local authority area. Market conditions are such that similar properties have actively sold or let and the level of observable inputs are significant.

Significant Unobservable Inputs – Level 3

These valuations are historic based on existing use values and/or based on unobservable inputs. These assets will be revalued in 2018/19 to allow confirmation of their fair value hierarchy classifications.

Reconciliation of Fair Value Measurements (using significant unobservable inputs) Categorised within Level 3 of the Fair Value Hierarchy

Surplus Assets categorised as Level 3	31st March 2018 £000	31st March 2017 £000
Opening balance	1,153	1,153
Transfers into Level 3	-	-
Transfers from Level 3	-	-
Total gains/losses for the period included in Surplus/Deficit on Provision of Services resulting from changes in fair value	-	-
Additions	594	-
Revaluations	-	-
Disposals	-	-
Closing Balance	1,747	1,153

Quantitative Information about Fair Value Measurement of Surplus Assets using Significant Unobservable Inputs – Level 3

	31 st March 2018 £000	Valuation Technique	Unobservable Inputs	Sensitivity
Former Sports Centre	45	Depreciated Replacement Cost	Future use	Planning restrictions Adjacent to Heritage Park
Land	1,747	Market value	Future use	Planning restrictions Site issues - redevelopment

23. HERITAGE ASSETS

The Heritage Assets owned by the Council are largely peripheral to its main objectives, and are held entirely with the objective of preserving them for future generations because of their cultural, environmental or historical association with the borough.

Reconciliation of the carrying value of Heritage Assets held by the Authority:

Asset Class	Balance B/F at 01/04/17 £000	Additions £000	Disposals £000	Revals (RR) £000	Revals (S/D on Prov of Servs) £000	Other Changes £000	Balance C/F at 31/03/18 £000
Rosewall Sculpture	950						950
Historic Sites & Buildings	318						318
Museum Collection (mainly fine & decorative arts)	265						265
Civic Plate, Paintings & Porcelain	245						245
Mayoral Regalia	439						439
Assets Carried at Valuation	2,217						2,217
Barrow Hill Railway HC	344						344
War Memorials etc.	38						38
Museum Collection	-						-
Percent for Art Sculptures	303						303
Assets Carried at Cost	685						685
TOTAL HERITAGE ASSETS	2,902						2,902

Historic Sites & Buildings

These assets are measured at valuation using conventional valuation approaches. They were valued as at March 2015 by Kier who are the Authority's Asset Management partner, in accordance with the Statements of Asset Valuation Practice & Guidance Notes of the Royal Institute of Chartered Surveyors. The exception to this is Barrow Hill Railway Heritage Centre which is measured at historical cost. They will be valued every five years as part of the Authority's rolling programme.

Rosewall Sculpture

The sculpture was acquired in 2008/09 and was valued immediately prior to purchase by Hazlett, Holland-Hibbert, a firm of specialist dealers in modern art at market value. Due to the cost involved, further appraisals will be infrequent.

Mayoral Regalia

This was valued in 2015. Due to the costs involved, further appraisals will be infrequent. No material additions or disposals have occurred since the valuation was prepared.

Civic Plate, Paintings & Porcelain

The Civic Plate, Civic Paintings and Porcelain were valued in 2015. Due to the costs involved, further appraisals will be infrequent. No material additions or disposals have occurred since the valuation was prepared.

Museum Collection

Those elements of the museum collection which have a readily ascertainable market value have been included in the Balance Sheet. The valuations were carried out in 1991 by Phillips Midlands and in 1993 by Henry Spencer & Sons. The value is based on formal valuation evidence, restated at April 2010 prices, using RPI as a reference index. No material additions or disposals have occurred since the valuation was prepared.

Assets not included in the Balance Sheet

War Memorials and Other Monuments – The Council has 17 war memorials together with various other monuments, including the Peace Fountain in Eastwood Park and the 'Old Town Pump' in the centre of Chesterfield market place. Only 4 of the war memorials and the Peace Fountain are included on the Balance Sheet. Reliable information on cost is not available. No further acquisitions or disposals of assets in this class of heritage assets is anticipated. These assets are not insured and it is considered impractical to obtain valuation information due to the lack of comparable transactions and the relative insignificance of the assets in purely financial terms.

Percent for Art – The Council supports the promotion of public art as good planning practice which brings cultural, environmental and economic benefit to local communities. Current planning policy requires developers of schemes costing more than £1m to include a work of art to the value of 1% of the total project cost on their development. The Council keeps a register of sculptures owned and maintained by it in the Forward Planning Section. The Council manages a separate website www.chesterfieldarttrail.co.uk which gives details of where the existing artworks can be found.

It is considered impractical to obtain reliable information on cost for most of the assets in this category as some of the artworks were paid for by third parties and for those sponsored by the Authority, the difficulty of separating costs relating to artwork from other capital costs. These assets are not insured and it is considered impractical to obtain valuation information due to the lack of comparable transactions and the diversity of the assets themselves.

Museum Collection – The majority of the 30,000 objects in the museum collection are made up of objects of social and industrial history. A high proportion of the collection is made up of items of minimal commercial value. A part of the collection is exhibited in the museum which is open four days a week and admission is free. The rest is held in storage. The collection can be divided into five broad categories:

- Social and historical objects

- Fine arts (paintings and drawings)
- Decorative art (pottery and glass)
- Archaeological finds
- Material available for loans to schools

Except for recent acquisitions, reliable information on cost is not available. In general, conventional valuation approaches would not be suitable owing to the sheer number and diversity of items, coupled with the unique and irreplaceable nature of many of the objects concerned. The collection is insured for £3.3m but this is regarded as a nominal and fairly arbitrary figure and therefore only those existing assets with a readily ascertainable market value have been recognised on the balance sheet. The Collections policy and the Rationalisation & Disposals policy are available from the Museums Collections officer and are reviewed every 5 years. The next review will take place in 2019.

Assets included in the Balance Sheet

Historic Buildings

There are three assets included in this classification. These are the Barrow Hill Railway Heritage Centre which hosts Britain's last working roundhouse, the Revolution House which is an old stone cottage used as a museum, originally an alehouse used to plot the Revolution of 1688 and the Queens Park dovecote which is located in the Victorian park in the centre of Chesterfield. No further acquisitions or disposals are expected in this classification of heritage assets. All of these assets can be visited by the public and further information is available on the Council's website.

War Memorials/Monuments

Only 4 of the 17 war memorials in the Borough and the Peace Fountain in Hasland Park are included in the balance sheet, the former at a notional cost of £1 each. No further acquisitions or disposals are anticipated for this classification of heritage asset. All of the assets are accessible to the public.

Rosewall Sculpture

This was originally commissioned from Barbara Hepworth by the Post Office to stand outside their administrative offices when they relocated to Chesterfield in the 1960's. In 2008, the Post Office put the sculpture up for sale and it was purchased by the Council as it was considered to be an intrinsic element of Chesterfield and they did not wish to see the sculpture leave the area. It is located adjacent to the public footbridge from the town centre into Queens Park in the centre of Chesterfield. There are no plans to dispose of this asset.

Mayoral Regalia/Civic Plate, Paintings & Porcelain

These are kept in the Mayor's Parlour in the Town Hall. The parlour is accessible to the public on several occasions each year and to school parties by special arrangement. No further acquisitions or disposals are planned for this classification of heritage asset, although items are donated on an ad-hoc basis.

Museum Collection

A part of the collection is exhibited in the museum which is open four days a week and admission is free. The element of the collection included in the balance sheet consists mainly of the fine art collection.

<u>Summary of Transactions</u>	2017/18 £000	2016/17 £000
<u>Assets Carried at Valuation</u>		
Cost of acquisitions	-	-
Fair value of donations	-	-
Disposals – carrying amount	-	-
Disposals – sale proceeds	-	-
Impairment losses	-	-
<u>Assets Carried at Cost</u>		
Cost of acquisitions	-	-
Fair value of donations	-	-
Disposals – carrying amount	-	-
Disposals – sale proceeds	-	-
Impairment losses	-	-

24. CAPITAL COMMITMENTS

The Council has approved a capital programme for the two year period to 2019/20 amounting to approximately £33m of which approximately £2.4m was contractually committed at 31st March 2018.

	Approved Expenditure £000	Committed £000
Council Housing	20,194	1,428
Economic Development	7,620	690
Renovation Grants	1,747	325
Leisure	807	-
Planning & Property	149	-
Other Schemes	2,098	5
	32,615	2,448

25. CAPITAL EXPENDITURE & FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

	2017/18 £000	2016/17 (restated) £000
Opening Capital Financing Requirement (CFR) 1st April	148,342	150,854
<u>Capital Investment</u>		
Property, Plant and Equipment	16,586	14,237
Investment Properties	74	660
Intangible Assets	-	-
Heritage Assets	-	-
Revenue Expenditure Funded from Capital under Statute	2,971	3,958
<u>Financed by</u>		
Capital Receipts	(3,819)	(3,384)
Capital Grants & Contributions	(3,655)	(4,055)
Revenue Balances & Direct Revenue Financing	(10,765)	(11,416)
Minimum / Voluntary Revenue Provision	(2,248)	(2,512)
Use of Capital Receipts to Repay Debt	-	-
Closing Capital Financing Requirement 31st March	147,486	148,342
Increase/(Decrease) in CFR	(856)	(2,512)
<u>Analysis of Increase/(Decrease) in CFR</u>		
Supported by Government Financial Assistance	-	-
Unsupported by Government Financial Assistance	(856)	(2,512)
Increase/(Decrease) in CFR	(856)	(2,512)

26. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2017/18 £000	2016/17 £000
Rental income from investment property	4,010	4,626
Direct operating expenses arising from investment property	1,403	1,387
Net gain/(loss)	2,607	3,239

Generally, there are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the revenue income and proceeds of disposal. The exceptions to this are as follows:

- Tapton House School was gifted to the authority and must be used for the benefit of the inhabitants of Chesterfield.
- Commercial and industrial units at Venture House and Prospect House were built by the authority but the construction was part funded by external grant funding. Net revenue income must be returned to these funding partners on an annual basis pro rata to the share of capital funding provided by them for the initial creation of the asset. Any proceeds on disposal of these assets would be returned on a similar basis.

The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement except for the Pavements Centre, Dunston Farm and Tapton House where there is an obligation to maintain and repair.

The following table summarises the movement in the fair value of investment properties over the year:

	2017/18 £000	2016/17 £000
Balance at start of year	50,387	54,717
Additions:		
Subsequent expenditure	74	380
Disposals	(40)	(1,982)
Net gains/losses from fair value adjustments	(4,239)	(2,728)
Other changes	-	-
Balance at end of year	46,182	50,387

Fair Value Hierarchy

Details of the investment properties and information about their fair value hierarchy at 31st March are as follows:

Recurring fair value measurements:	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 st March 18 £000
Industrial units & Trading Estates	18,306	-	18,306
Retail & Office	17,395	-	17,395
Undeveloped Land	9,196	473	9,669
Miscellaneous	647	165	812
Total 2017/18	45,544	638	46,182

Recurring fair value measurements:	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 st March 17 £000
Industrial units & Trading Estates	16,890	-	16,890
Retail & Office	20,702	-	20,702
Undeveloped Land	11,459	443	11,902
Miscellaneous	733	160	893
Total 2016/17	49,784	603	50,387

There were no transfers between Levels 2 and 3 during the year.

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

Significant Observable Inputs – Level 2

The Council's investment portfolio generally sits within an active market where there have been a number of lettings and sales therefore they have been classed as Level 2 in the fair value hierarchy as inputs are observable. The fair value takes account of current leases, cash flows and reasonable assumptions regarding future rental income and outgoings.

Significant Unobservable Inputs – Level 3

The Level 3 investment properties consist of 4 agricultural holdings for which formal lease documentation is incomplete thereby creating unknowns.

Reconciliation of Fair Value Measurements (using significant unobservable inputs) Categorised within Level 3 of the Fair Value Hierarchy

Investment Properties categorised as Level 3	31st March 2018 £000	31st March 2017 £000
Opening balance	603	603
Transfers into Level 3	-	-
Transfers from Level 3	-	-
Total gains/losses for the period included in Surplus/Deficit on Provision of Services resulting from changes in fair value	35	-
Additions	-	-
Revaluations	-	-
Disposals	-	-
Closing Balance	638	603

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs – Level 3

	31 st March 2018 £000	Valuation Technique	Unobservable Inputs	Sensitivity
Undeveloped Land	473	Assumed investment (fair value basis)	Rent details Rent comparables	Tenancy details Rent levels Rent reviews
Farm	165	Assumed investment (fair value basis)	Rent details Rent comparables	Rent level being known/eligible successor/prospect of vacant possession

Highest and Best Use of Investment Properties

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

Valuation Process for Investment Properties

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out by Kier, the Council's Asset Management partner, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors.

27. FIXED ASSET VALUATION

The authority's freehold and leasehold properties have been valued by Kier, the Council's Asset Management partner, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. All assets are re-valued on a rolling programme basis over five years.

Plant and machinery includes such items that are not a fixture or fitting to a building.

Properties regarded by the authority as operational were valued on the basis of existing use value or, where this could not be assessed because there was no market based evidence for the subject asset, the depreciated replacement cost.

Infrastructure, community assets and assets under construction are included in the balance sheet at historical cost, net of depreciation.

Except for those dwellings which the Authority leases out to other providers of social housing and a small number of impaired properties, the stock of council dwellings was re-valued as at 31st March 2018 in accordance with Government guidelines. The basis of the valuation for the bulk of the housing stock within the HRA is Existing Use Value for Social Housing (see note 4 on page 99).

The statement below shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are carried out by Kier. Where the valuations have not been updated in recent years the authority has assessed that there has been no material change in value. The basis of the valuations is set out in Note 1.13 of the Summary of Significant Accounting Policies.

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Valued at historical cost		312	2,970	6,061	4,072		3,468	16,883
<u>Valued at current value</u>								
2017/18	340,472	11,152				594		352,218
2016/17		35,090				45		35,135
2015/16		15,784				88		15,872
2014/15		4,519						4,519
2013/14		6,575				1,108		7,683
Total Gross Book Value	340,472	73,432	2,970	6,061	4,072	1,835	3,468	432,310

28. DEPRECIATION

The treatment of depreciation is described in Note 1.14 of the Summary of Significant Accounting Policies.

29. IMPAIRMENT LOSSES

No impairment losses were recognised in either Surplus or Deficit on the Provision of Services or in Other Comprehensive Income & Expenditure during 2017/18.

30. LEASES

Authority as Lessee

Finance Leases

The Authority has no finance leases.

Operating Leases

The Authority has a number of operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

	31st March	
	2018 £000	2017 £000
Not later than 1 year	716	275
Later than 1 year and not later than 5 years	2,319	376
Later than 5 years	587	23
Total	3,622	674

There were no future minimum sublease payments expected to be received under non-cancellable subleases at 31st March, 2018 or 31st March, 2017.

The amounts recognised as an expense in Surplus or Deficit on Provision of Services are detailed below.

	Year Ended 31st March	
	2018 £000	2017 £000
Minimum lease payments	669	590
Contingent rents	8	8
Total	677	598

Authority as Lessor

Finance Leases

The Authority has no finance leases.

Operating Leases

The Authority leases out industrial and commercial premises for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 st March	
	2018 £000	2017 £000
Not later than 1 year	1,989	1,789
Later than 1 year and not later than 5 years	4,132	3,718
Later than 5 years	3,643	3,585
Total	9,764	9,092

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18, £243,519 contingent rents were receivable by the Authority (2016/17 £500,297).

31. DEBTORS

	31 st March	
	2018 £000	2017 (restated) £000
Central Government Bodies	1,162	261
Other Local Authorities	846	948
Public Corporations	-	-
Other Entities & Individuals	2,543	5,341
Total	4,551	6,550

32. CASH & CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	31 st March	
	2018 £000	2017 £000
Cash held	17	16
Bank current accounts	(821)	(522)
Short term deposits with banks	26,926	17,114
Total	26,122	16,608

33. ASSETS HELD FOR SALE

	Current		Non Current	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
<u>Investment Property Held for Sale</u>				
Balance brought forward at 1 April	43	158	-	-
Revaluations	-	-	-	-
Assets newly classified as held for sale	-	-	-	-
Assets declassified as held for sale	-	-	-	-
Assets sold	(43)	(115)	-	-
Balance carried forward at 31 March	-	43	-	-
<u>Other Assets Held for Sale</u>				
Balance brought forward at 1 April	-	-	-	-
Assets newly classified as held for sale	-	-	-	-
Assets declassified as held for sale	-	-	-	-
Assets sold	-	-	-	-
Balance carried forward at 31 March	-	-	-	-
<u>Net Sale Proceeds</u>				
Investment Property	-	1,773	-	-
Other Assets	-	159	-	-

34. CREDITORS

	31st March	
	2018 £000	2017 (restated) £000
Central Government Bodies	1,310	2,729
Other Local Authorities	1,134	2,496
Public Corporations	3,904	-
Other Entities & Individuals	7,687	8,074
Total	14,035	13,299

35. PROVISIONS

The Council has established the following provisions under the appropriate legal power to cover potential liabilities:-

	Balance b/fwd 01/04/17 £000	Movements in year		Balance c/fwd 31/03/18 £000
		Additions £000	Applied £000	
Short Term Provisions				
Non Domestic Rate Appeals	747	-	(408)	339
D.L.O. Provision	315	317	(315)	317
Redundancy Provision	108	-	(75)	33
Total – Short Term Provisions	1,170	317	(798)	689
Long Term Provisions				
Non Domestic Rate Appeals	1,059	57	(73)	1,043
Transport Employee Pensions	991	64	(47)	1,008
Insurance Provision	667	226	(158)	735
MMI Provision	20	-	(4)	16
Other	14	-	-	14
Total – Long Term Provisions	2,751	347	(282)	2,816

D.L.O. Provision

Provision for potential future remedial works and losses.

Redundancy Provision

The provision is to meet those redundancies to which the Council is committed but which had not taken place at the end of the financial year.

Transport Employee Pensions

The provision is being built up in order to meet the Council's liability in respect of pensions of former Transport Undertaking employees who were transferred to the private sector on privatisation. An independent actuarial review of this fund takes place every three years. The fund was reviewed in March 2017 and will be increased over the next 3 years in line with review recommendations.

Insurance Provision

All major risks are insured externally and the Insurance Fund is used to finance the excesses on these policies. An independent actuarial review of this fund was undertaken in 2016 which suggested that the fund balance was adequate. The next review will take place during 2019/20.

MMI Provision

The Council was insured by MMI until 1993 when the Company went into administration. In March 2012 the Supreme Court found against MMI in the Employers' Liability Policy Trigger case. The ruling means that MMI are liable to pay compensation for mesothelioma cases where they were the insurer at the date of exposure to asbestos, rather than the insurer at the time the disease develops. The judgement will have significant implications for the Company and the Scheme Creditors, of which the Council is one.

Because a solvent run-off is not possible, the Scheme of Arrangement has been triggered with claw back of some element of the claims paid since 1993 from the Council.

As at the 31st March 2018 the Council's claims paid and outstanding with MMI totalled £1.4m. The Council has been advised that it will be liable to pay 25% of these claims and an appropriate provision has therefore been included in the accounts.

Non Domestic Rate Appeals

The introduction of the business rates retention scheme from 1st April 2013, means that a proportion of successful rating appeals must be met by the local authority. Previously they were met by central government. A provision has been established to recognise the liability. Due to the complexity and uncertainties surrounding the calculation of the provision, the Council engages the services of Inform PCI and the Analyse Local system. A detailed breakdown of the provision can be found on page 106.

36. FINANCIAL INSTRUMENTS BALANCES

The borrowings, investments, cash and cash equivalents disclosed in the balance sheet are made up of the following categories of financial instruments:

	31st March			
	Long term		Current	
	2018 £000	2017 £000	2018 £000	2017 £000
Loans & receivables	200	1,250	19,337	10,542
Available for sale	-	-	21,929	17,115
Financial assets at fair value through profit or loss	-	3,256	7,236	7,048
Financial assets carried at contract cost	-	-	2,385	5,583
Financial Assets	200	4,506	50,887	40,288
Financial liabilities at amortised cost	129,350	131,567	3,047	4,894
Financial liabilities at fair value through profit or loss	-	-	-	-
Financial liabilities carried at contract cost	-	-	12,397	9,720
Financial Liabilities	129,350	131,567	15,444	14,614

Fair Value of Financial Assets

Some of the Council's financial assets are measured at fair value on a recurring basis and are described in the table below.

Financial assets measured at fair value				
Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique	Value as at 31/3/18 £000	Value as at 31/3/17 £000
Available for sale				
Money market funds	Level 1	Unadjusted quoted prices in active markets	21,929	17,115
Fair Value through Profit or Loss				
UK Gilt	Level 1	Unadjusted quoted prices in active markets	3,225	3,264
Corporate Bonds	Level 1	Unadjusted quoted prices in active markets	-	2,013
Certificate of Deposits	Level 1	Unadjusted quoted prices in active markets	4,011	5,027
Total			29,165	27,419

There were no transfers between input levels during the year and no changes in valuation techniques.

37. FINANCIAL INSTRUMENTS INCOME, EXPENSE, GAINS/LOSSES

The gains and losses recognised in the Comprehensive Income & Expenditure Statement in relation to financial instruments are made up as follows:

2017/18	Financial Liabilities	Financial Assets			Total £000
	Liabilities measured at amortised cost	Loans & receivables	Available-for-sale assets	Fair value through profit or loss	
	£000	£000	£000	£000	
Interest expense	5,169	-	-	-	
Losses on derecognition	-	-	-	-	
Decrease in fair value	-	-	-	29	
Total expense in Surplus/Deficit on Provision of Services	5,169	-	-	29	5,198
Interest income	-	(115)	-	(61)	
Dividend income	-	-	(24)	-	
Increase in fair value	-	-	-	-	
Gains on derecognition	-	-	(53)	-	
Total income in Surplus/Deficit on Provision of Services	-	(115)	(77)	(61)	(253)
Gains on revaluation			-		
Losses on revaluation			-		
Amounts recycled to Surplus/Deficit on Provision of Services after impairment			-		
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure			-		
Net (gain)/loss for year	5,169	(115)	(77)	(32)	

2016/17	Financial Liabilities	Financial Assets			Total £000
	Liabilities measured at amortised cost	Loans & receivables	Available-for-sale assets	Fair value through profit or loss	
	£000	£000	£000	£000	
Interest expense	5,303	-	-	-	
Losses on derecognition	-	-	-	-	
Impairment losses	-	-	-	-	
Total expense in Surplus/Deficit on Provision of Services	5,303	-	-	-	5,303
Interest income	-	(141)	-	(99)	
Dividend income	-	-	(18)	-	
Increase in fair value	-	-	-	(12)	
Gains on derecognition	-	-	(84)	-	
Total income in Surplus/Deficit on Provision of Services	-	(141)	(102)	(111)	(354)
Gains on revaluation			-		
Losses on revaluation			-		
Amounts recycled to Surplus/Deficit on Provision of Services after impairment			-		
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure			-		
Net (gain)/loss for year	5,303	(141)	(102)	(111)	

38. FAIR VALUE OF ASSETS & LIABILITIES CARRIED AT AMORTISED COST

Except for the financial assets carried at fair value (see note 36 for details), financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair values are calculated as follows:

	31 st March 2018		31 st March 2017	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial Liabilities	132,397	178,400	136,461	185,984

The fair value is more than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed early repayment of loans.

	31 st March 2018		31 st March 2017	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans & Receivables	19,537	19,537	11,792	11,792

For loans and receivables, the carrying amount is considered to be a reasonable approximation of fair value and therefore no fair value disclosures are included.

The fair value of trade and other receivables is taken to be the invoiced or billed amount. The carrying amount is therefore a reasonable approximation of fair value and this category of financial instrument is therefore excluded from the figures above.

Fair Value Hierarchy for Financial Liabilities that are not measured at fair value

Recurring fair value measurements:	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 st March 18 £000
Financial Liabilities			
PWLB loans	-	177,309	177,309
Total	-	177,309	177,309

Recurring fair value measurements:	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 st March 17 £000
Financial Liabilities			
PWLB loans	-	182,766	182,766
Total	-	182,766	182,766

For the remaining £1.1m of financial liabilities, the carrying value has been used as a proxy for fair value.

The fair value for financial assets and liabilities that are not measured at fair value included in level 3 above has been calculated using a discounted cash flow analysis. They can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Applicable interest rate (repayment rates)
- no impairment or early repayment is recognised
- all loans have fixed rates

There has been no change in valuation techniques used and no transfers between levels 2 and 3 during the year.

39. NATURE & EXTENT OF RISKS FROM FINANCIAL INSTRUMENTS

The authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority may not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse

effects on the resources available to fund services. Risk management is carried out by officers using policies approved by the Council in the treasury management strategy which is reviewed annually. This provides written principles for overall risk management and for specific subjects such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits placed with financial institutions which include fixed interest securities traded in an active market. Security of capital is considered to be of paramount importance and so, to minimise credit risk, lending is limited to counterparties on an approved list. This list is compiled using advice from our independent treasury advisers who have fully researched the background and credit worthiness of counterparties.

For lending decisions taken in-house, the authority operates individual counterparty exposure limits by value (£5m with any one institution and a group limit of £7.5m for a number of institutions under one ownership).

No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties.

The table below summarises the authority's potential maximum exposure to credit risk at 31st March based on experience of default and uncollectability over the last five financial years.

	Amount at 31 st March 2018 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 st March 2018 %	Estimated maximum exposure to default & uncollectabi lity £000	Estimated maximum exposure at 31 st March 2017 £000
Deposits with banks & financial institutions	13,035	-	-	-	5,027
Deposits with Local Authorities	10,013	-	-	-	5,277
Customers	2,838	39.48	38.88	1,103	3,770
Total	25,886	-	-	1,103	14,074

The authority does not generally allow credit for customers, such that £1.725m (£2.399m in 2016/17) of the £2.838m (£3.770m in 2016/17) balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31st March 2018 £000	31st March 2017 £000
Less than three months	275	586
Three to six months	100	107
Six months to one year	328	373
More than one year	1,022	1,333
Total	1,725	2,399

Liquidity Risk

The authority has ready access to borrowings from the Public Works Loan Board (PWLb) so there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replace a significant proportion of its borrowings at a time of unfavourable interest rates. Our Treasury Management strategy specifies a maturity profile whose objective is to ensure a spread of repayments and avoid a large repayment in any one year.

The maturity analysis of financial liabilities is as follows:

Maturing within	31 st March 2018 £000	31 st March 2017 £000
1 year	3,047	2,472
1 to 2 years	2,000	2,231
2 to 5 years	6,821	5,847
5 to 10 years	13,534	13,639
10 to 15 years	16,785	14,762
15 to 20 years	24,810	24,688
20 to 25 years	22,800	24,400
25 to 30 years	17,000	17,000
30 to 35 years	14,800	17,000
35 to 40 years	6,000	6,000
40 to 45 years	4,800	6,000
45 to 50 years	-	-
Total	132,397	134,039

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. For example, a rise in interest rates would have the following effects:

- Borrowings at variable rates – interest expense charged to Comprehensive Income & Expenditure Statement will rise
- Borrowings at fixed rates – fair value of liabilities borrowings will fall
- Investments at variable rates – interest income credited to Comprehensive Income & Expenditure Statement will rise
- Investments at fixed rates – fair value of assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income & Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income & Expenditure Statement and will have a direct effect on the general fund balance. Movements in the fair value of fixed rate investments, other than those carried at

amortised cost, will be reflected in the Comprehensive Income & Expenditure Statement.

The authority has a number of strategies for managing interest rate risk. For 2017/18, the upper limit for exposure to variable rate debt was £66.2m (£68.8m in 2016/17).

Changes to interest rates are reviewed quarterly and used to update the annual budget setting information. This allows any adverse changes to be accommodated.

Price Risk

The authority holds some financial instruments whose capital value may fluctuate as a result of market conditions. However these instruments are all kept on a 'hold to maturity' basis and therefore any temporary fluctuations in the market value of these products would have no impact on the authority's finances.

Foreign Exchange Risk

The authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to losses arising from movements in exchange rates.

40. USABLE RESERVES

	31st March	
	2018 £000	2017 £000
Earmarked Reserves - Capital	1,411	1,730
Earmarked Reserves - Revenue	9,518	6,784
Total Earmarked Reserves (GF)	10,929	8,514
General Fund(GF) Working Balance	1,500	1,500
HRA Working Balance	27,417	24,977
Earmarked Reserves - HRA	279	342
Useable Capital Receipts Reserve	4,703	3,475
Capital Grants Unapplied	6,612	1,124
Total Usable Reserves	51,440	39,932

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement on page 23. A detailed breakdown of the Council's earmarked reserves is provided in Note 11. Two further reserves are included in

the balance sheet within the Usable Reserves category and the details of these are shown below:

<u>Usable Capital Receipts Reserve</u>	2017/18 £000	2016/17 £000
Brought forward 1 April	3,475	661
Additions	5,972	7,131
Pooling liability	(925)	(933)
Financing of capital expenditure	(3,819)	(3,384)
Voluntary repayment of debt	-	-
Carried forward 31 March	4,703	3,475

<u>Capital Grants Unapplied</u>	2017/18 £000	2016/17 £000
Brought forward 1 April	1,124	444
Additions	5,490	685
Transfers (to)/from revenue	-	(1)
Financing of capital expenditure	(2)	(4)
Carried forward 31 March	6,612	1,124

41. **UNUSABLE RESERVES**

	31st March	
	2018 £000	2017 £000
Revaluation Reserve	27,188	26,063
Capital Adjustment Account	297,762	303,005
Financial Instruments Adjustment Account	(32)	(38)
Pensions Reserve	(61,763)	(63,741)
Deferred Capital Receipts Reserve	171	176
Collection Fund Adjustment Account	(1,511)	(344)
Accumulated Absences Account	(295)	(292)
Total Unusable Reserves	261,520	264,829

42. REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2017/18 £000	2016/17 £000
Balance brought forward 1 st April	26,063	19,179
Revaluation gains	3,458	7,927
Revaluation and impairment losses	(809)	(580)
Amounts t/f to Cap Adj Account (Depreciation)	(1,327)	(387)
Amounts t/f to Cap Adj Account (Disposals)	(197)	(76)
Balance carried forward 31st March	27,188	26,063

43. CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

This Account contains accumulated gains and losses on Investment properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2017/18 £000	2016/17 £000
Balance brought forward 1st April	303,005	247,812
<u>Reversal of items recognised in the Comprehensive Income & Expenditure Statement</u>		
Property, Plant & Equipment: depreciation charges	(11,313)	(9,716)
Property, Plant & Equipment: net revaluation gains/(losses)	(1,984)	58,786
Intangible Assets: amortisation charges	(129)	(134)
Revenue expenditure funded from capital under statute	(2,971)	(3,958)
Disposal/derecognition of non-current assets	(7,466)	(8,874)
Gain/(loss) in fair value of investment properties	(3,391)	(2,929)
<u>Amounts transferred from the Revaluation Reserve</u>		
Depreciation adjustment	1,327	388
Disposal/derecognition adjustment	197	77
<u>Capital financing provisions</u>		
Application of usable capital receipts	3,819	3,384
Application of Major Repairs Reserve	10,372	10,049
Application of revenue balances and direct revenue financing	393	1,367
Capital grants/contributions recognised in revenue during the period	3,653	4,236
Application of capital grants unapplied	2	4
Minimum revenue provision	2,248	2,513
Principal repayments - deferred debtors	-	-
Balance carried forward 31st March	297,762	303,005

44. **PENSIONS RESERVE**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employers contributions to pension funds or pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2018 £000	2017 £000
Balance brought forward at 1st April	(63,741)	(60,998)
Actual gains or losses on pension assets and liabilities	6,025	(48)
Reversal of items relating to retirement benefits debited/credited to Surplus/Deficit on Provision of Services in Comprehensive Income & Expenditure Statement	(8,864)	(7,434)
Employers pension contributions	4,817	4,739
Balance at 31st March	(61,763)	(63,741)

45. DEFERRED CAPITAL RECEIPTS RESERVE

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

The balance relates to debt outstanding on assets transferred from North East Derbyshire District Council in 1974 and 1988.

	2018 £000	2017 £000
Balance brought forward at 1st April	176	180
Transfer to Capital Receipts Reserve on receipt of cash	(5)	(4)
Balance at 31st March	171	176

46. COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2018 £000	2017 £000
Balance brought forward at 1st April	(344)	(1,993)
Amount by which council tax and non domestic rates income credited to Comprehensive Income & Expenditure Statement is different from council tax and non domestic rates income calculated for year in accordance with statutory requirements	(1,167)	1,649
Balance at 31st March	(1,511)	(344)

47. **ACCUMULATED ABSENCES ACCOUNT**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for paid absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2018 £000	2017 £000
Balance brought forward at 1st April	292	293
Settlement or cancellation of accrual made at end of preceding year	(292)	(293)
Amounts accrued at end of current year	295	292
Balance at 31st March	295	292

48. **CASHFLOW STATEMENT - ADJUST NET SURPLUS/DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH ADJUSTMENTS**

	2017/18 £000	2016/17 £000
Depreciation	(13,446)	48,735
Movement in Fair Value of Investments	(29)	25
(Increase)/decrease in Creditors	(4,252)	392
Increase/(decrease) in Debtors	(2,404)	(25)
Increase/(decrease) in Stock	(12)	(1)
Movement in Pension Liability	(4,046)	(2,695)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(5,942)	(8,410)
Movement in Investment Property Value	(3,390)	(2,728)
Other non-cash items charged to net surplus/deficit on provision of services	415	149
Total	(33,106)	35,442

49. **CASHFLOW STATEMENT - ADJUST FOR ITEMS IN NET SURPLUS/DEFICIT ON PROVISION OF SERVICES THAT ARE INVESTING & FINANCING ACTIVITIES**

	2017/18 £000	2016/17 £000
Proceeds from sale of PPE, investment properties & intangible assets	5,968	7,127
Capital grants	9,142	4,737
Total	15,110	11,864

50. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2017/18 £000	2016/17 £000
Interest received	(280)	(386)
Interest paid	5,191	5,283

51. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2017/18 £000	2016/17 £000
Purchase of non-current assets	16,261	14,103
Purchase of short term and long term investments	17,000	15,512
Other payments for investing activities	224	-
Proceeds from sale of non-current assets	(5,972)	(7,131)
Proceeds from short term and long term investments	(17,500)	(7,000)
Other receipts from investing activities	(9,136)	(5,592)
Net cash flows from investing activities	877	9,892

52. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2017/18 £000	2016/17 £000
Cash receipts of short and long term borrowing	-	(2,400)
Repayments of short and long term borrowing	4,341	4,415
Other payments for financing activities	2,790	(2,730)
Net cash flows from financing activities	7,131	(715)

53. RELATED PARTY TRANSACTIONS

The Code requires that material transactions with third parties that have the potential to control or influence the Council or to be controlled or influenced by the Council are disclosed in the accounts. For this Council, these parties are mainly Central Government, other Local Authorities, subsidiary and associated companies, joint ventures and joint venture partners, Members, Chief Officers, Senior Officers and the pension fund.

Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government

The UK Central Government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in Note 19 on grant income.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2017/18 is shown in Note 18. In addition, the Council paid grants totalling £248,079 to voluntary organisations in which 10 members had positions on the governing body. In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion relating to the grants.

Council Members and senior officers are required to make annual disclosures of the pecuniary and non-pecuniary interests to the Council's monitoring officer for inclusion in the Register of Members interests and the Declaration of Personal Interests (Officers). Members are also required to declare any interest on individual committee agenda items being discussed at meetings. Finally a separate declaration has been returned at year end by all members and senior officers. The returns confirm that there are no material interests in related parties beyond those in voluntary organisations declared above.

Subsidiary and Associated Companies

The authority had no interest in subsidiary or associated companies in the year.

Other Arrangements

The Authority is a Non-constituent Council in the Sheffield City Region Combined Authority which came into being on 1st April 2014. It consists of 9 local authorities who are working together to promote strategic economic development. It is also a partner in the Sheffield City Region Local Enterprise Partnership which has similar objectives.

The Council has a shared internal audit consortium with Bolsover and North East Derbyshire District Councils. Other joint arrangements may be explored with neighbouring authorities in the future.

Chesterfield Borough Council is a partner in Chesterfield Waterside Ltd, a public/private partnership created to secure the regeneration of a strategic area within the borough. It has three Board members and the Leader of the Council is our representative.

The authority is a shareholder in Derbyshire Building Control Partnership Ltd. 2017/18 was the first year of operation. The company provides us with our annual statutory building control services for £54,500. This authority has also provided the company with a loan of £250,000 for cash flow and initial set up costs. This loan is repayable in equal annual instalments over 5 years at an interest rate of 3% above the Public Works Loan Board rate. This equates to an interest rate of 4.85%. A member of the

Corporate Management Team is acting as interim Managing Director of the company but receives no remuneration for this role. The Council's Chief Executive is also listed as a Director of the company but again receives no remuneration.

54. CHESTERFIELD & DISTRICT JOINT CREMATORIUM COMMITTEE

The Council operates a Crematorium jointly with Bolsover and North East Derbyshire District Councils.

The accounts include our share of all transactions, assets, liabilities, income and expenditure.

The proportion of transactions is based on the number of cremations of residents within the three districts over a rolling 3 year period.

The following percentages have been applied:

Year	Chesterfield Borough Council	North East Derbyshire District Council	Bolsover District Council
2017/18	55%	31%	14%
2016/17	55%	31%	14%

The figures below show Chesterfield Borough Council's share of the Chesterfield & District Joint Crematorium's income, expenditure, assets and liabilities included in the Comprehensive Income & Expenditure Statement and Balance Sheet based on the split outlined above.

Income & Expenditure Account

2016/17 Net Expenditure £000		2017/18		
		Expenditure £000	Income £000	Net Expenditure £000
185	Health & Wellbeing	876	(921)	(45)
185	Net Cost of Service	876	(921)	(45)

Balance Sheet

2016/17 £000		2017/18 £000
	<u>Long Term Assets</u>	
1,264	Other Land & Buildings	1,211
22	Vehicles, Plant, Furniture & Equipment	20
-	Assets under Construction	-
138	Investment Properties	36
	<u>Current Assets</u>	
1	Stock	1
146	Debtors	182
930	Cash	788
	<u>Current Liabilities</u>	
(419)	Creditors	(136)
	<u>Long Term Liabilities</u>	
883	Pension Scheme Assets	915
(1,354)	Pension Scheme Liabilities	(1,377)
1,611	Net Assets	1,640
180	Revaluation Reserve	231
1,230	Capital Adjustment Account	1,022
(471)	Pensions Reserve	(461)
510	Earmarked Reserves	694
162	Balances – Revenue Surplus	154
1,611	Total Reserves	1,640

55. THE ARVATO PARTNERSHIP

2017/18 is the eighth year of a ten year Public Private Partnership (PPP) contract for a range of back office services including revenues and benefits, human resources and payroll, IT, Facilities Maintenance, Asset Management and Invoice Processing together with call centre and reception services.

The contract specifies minimum standards for services, measured by key performance indicators, with deductions from the fee payable if performance falls below these minimum standards. The contract is subject to an annual indexation increase.

As part of the agreement, the contractor undertook to make and fund improvements to the Revenues Hall in Chesterfield to create a customer service centre, at no cost to the Council. These works were completed during 2012/13. The Revenues Hall will be returned to the Authority for no consideration at the end of the 10 year contract. The improvements have increased the value of the Revenues Hall and the resulting enhancement has been recognised on the Council's balance sheet.

The Authority makes an agreed payment each month which is increased annually each year by inflation and can be reduced if the contractor fails to achieve its key performance indicators but which is otherwise fixed. Payments remaining to be made under this contract at 31st March 2018 (excluding any estimation of inflation and performance deductions) are as follows:

	Payment for Services £000
Payable in 2018/19	5,056
Payable within two to five years	8,019
Total	13,075

56. **CONTINGENT LIABILITIES**

NNDR Appeals

The Collection Fund account includes a provision for appeals against business rate valuation assessments which were lodged by 31st March 2018. Further appeals against valuations on the 2017 valuation list may be received in future years. The value of the liability cannot be estimated for unknown claims which have not yet been received.

Municipal Mutual Insurance

The Scheme of Arrangement was enacted in 2012/13. The liability on the Council as a scheme creditor cannot be fully estimated at this stage for unknown claims incurred but not yet reported. Whilst the Council has considered the financial impact in producing the Statement of Accounts, there is a risk that the Council's financial liability could increase from this level.

HOUSING REVENUE ACCOUNT (HRA) INCOME & EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost.

The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

HOUSING REVENUE ACCOUNT (HRA) INCOME & EXPENDITURE STATEMENT

	Notes	2017/18 £000	2016/17 £000
<u>Income:</u>			
Dwellings Rents	1	36,262	36,988
Charges for Services and Facilities		441	458
Non-Dwelling Rents		779	664
Contribution towards Expenditure		505	500
Total Income		37,987	38,610
<u>Expenditure:</u>			
Supervision & Management : General		5,761	5,798
Special		2,169	2,105
Rents, Rates, Taxes & Other Charges		606	486
Repairs and Maintenance		8,073	8,813
Depreciation & Impairment of non-current assets	4	10,307	(50,878)
Debt Management Costs		47	49
REFCUS		20	-
Movement in the allowance for bad debts		2,173	300
Total Expenditure		29,156	(33,327)
Net Expenditure/(Income) of Services as included in the Comprehensive Income & Expenditure Statement		(8,831)	(71,937)
HRA share of Corporate & Democratic Core		30	29
Net Expenditure/(Income) for HRA Services		(8,801)	(71,908)
HRA share of the operating income and expenditure included in the Comprehensive Income & Expenditure Statement			
(Gain)/Loss on Disposal of HRA non-current assets		1,663	1,118
HRA share of interest payable & similar charges		4,961	5,067
Interest & Investment Income		(75)	(223)
Share of D.L.O./D.S.O. Surplus		-	(169)
Change in Market Value of Investment Properties		848	(201)
Income & Expenditure re Investment Properties		(67)	(75)
(Surplus)/Deficit on HRA Services		(1,471)	(66,391)

Movement on the HRA Statement	2017/18 £000	2016/17 £000
Balance on HRA at end of previous year	(24,977)	(20,471)
(Surplus)/Deficit for year on HRA Income & Expenditure Statement	(1,471)	(66,391)
Adjustments between accounting basis and funding basis under statute (note 9)	(906)	61,930
Net (Increase)/Decrease before transfers to or from reserves	(2,377)	(4,461)
Transfers to/(from) reserves	(63)	(45)
(Increase)/decrease in year on HRA	(2,440)	(4,506)
Balance on HRA at end of current year	(27,417)	(24,977)

NOTES TO THE HOUSING REVENUE ACCOUNT

The Council had 9,192 dwellings available for rent during 2017/18. Its activities as a housing landlord must, by law, be shown in a separate account, the Housing Revenue Account. The law prescribes what must be included in this Account and prevents transfers to or from the General Fund except in closely defined circumstances.

1. RENT OF DWELLINGS

This is the total rent income collectable for the year after allowance is made for empty properties. During the year, £750,025 (2.07%) of rental income was lost due to vacant properties, in 2016/17 the figure was £906,730 (2.45%). The average weekly rent in 2017/18 was £83.37 (48 week year), a decrease of £0.37 (0.44%) on the previous year.

2. HOUSING STOCK

The Council's housing stock at 31st March, 2018 was as follows:

	31 Mar 18	31 Mar 17
Houses	4,621	4,716
Flats & maisonettes	3,136	3,208
Bungalows	1,393	1,395
Others	42	26
Total	9,192	9,345

The number of properties sold under the 'Right to Buy' legislation in 2017/18 was 105 (103 in 2016/17).

3. RENT ARREARS

Rent arrears at the year-end totalled £1,981,331. This compares with £2,310,765 at 31st March, 2017. A provision of £3,034,109 (£1,258,823 in 2016/17) has been made in the Balance Sheet for uncollectable housing rent debts.

4. VALUATION OF ASSETS

A full revaluation of HRA assets was undertaken at 31st March 2018 accordance with the 'DCLG's Guidance on Stock Valuation for Resource Accounting'. The valuation comprised valuing circa 135 beacon properties and applying these values to other properties within the group, to accurately reflect the range of values across the group. The figure for 31st March 2017 excludes depreciation and disposals over the period.

Balance Sheet Valuations of HRA Assets		
	As at 31st March 2018 £000	As at 31st March 2017 £000
Council Dwellings	340,472	343,059
Other Land & Buildings	3,909	4,054
Vehicles, Plant, Furniture & Equipment	8	10
Assets Under Construction	1,132	824
Surplus Assets Not Held for Sale	1,702	1,108
Investment Property	3,637	4,525
Investment Property Held for Sale	-	43
Total	350,860	353,623

The balance sheet valuations for dwellings in the table above are calculated on the basis of rents receivable from existing tenancies. The rents are less than those that could be obtained on the open market. The balance sheet value defined as Existing Use Value – Social Housing (EUV-SH) is therefore less than the Open Market Value (OMV). The difference between the two values represents the economic cost of providing social housing at less than market value.

The vacant possession value of the dwellings as at 1st April, 2017 was £811m (£816m 1st April 2016). This valuation is the authority's estimate of market value assuming the property was offered on the open market with full vacant possession. The factor used to convert the OMV of the stock to EUV-SH for inclusion in the balance sheet was increased from 34% to 42% with effect from 1st April, 2016.

5. HRA CAPITAL EXPENDITURE & FINANCING

Capital Expenditure		Capital Financing	
	<u>£000</u>		<u>£000</u>
Council Dwellings	13,782	Borrowing	-
Assets Under Construction	308	Capital Receipts Reserve	3,698
Vehicles, Plant, Machinery & Equipment	-	Major Repairs Reserve	10,372
REFCUS	20	Grants & Contributions	40
		Revenue Balances & Direct Revenue Financing	-
Total	14,110		14,110

6. HRA CAPITAL RECEIPTS

HRA Capital Receipts	2017/18 £000	2016/17 £000
Council Dwellings	5,153	4,735
Other Land & Property	580	509
Total	5,733	5,244

7. DEPRECIATION

HRA Depreciation	2017/18 £000	2016/17 £000
Council Dwellings	9,087	7,486
Other Land and Buildings	107	84
Surplus Assets Not Held for Sale	-	-
Vehicles, Plant, Furniture and Equipment	3	3
Total	9,197	7,573

8. REFCUS, REVALUATION AND IMPAIRMENT LOSSES

Any revaluation/impairment losses (or reversals of past revaluation/impairment losses), amounts in respect of Revenue Expenditure Funded From Capital Under Statute (net of related grant income) and movements in the fair value of investment property were recognised in Surplus/Deficit on the Provision of Services and then reversed out in the Movement in Reserves Statement by means of a transfer to/from the Capital Adjustment Account.

REFCUS, Revaluation and Impairment Losses	2017/18 £000	2016/17 £000
Council Dwellings	1,111	(58,457)
Other Land and Buildings	-	(1,038)
Surplus Assets Not Held for Sale	-	-
Revaluation and Impairment Losses	1,111	(59,495)
REFCUS – Social Mobility Scheme	20	-
Movements in the fair value of investment property	848	(201)
Total	1,979	(59,696)

9. ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS UNDER REGULATIONS

	2017/18 £000	2016/17 £000
Net gain/(loss) on sale of HRA non-current assets	(1,663)	(1,118)
HRA share of contributions to or from the Pensions Reserve	(453)	(126)
Capital expenditure funded by the HRA	-	-
Transfer to/(from) Major Repairs Reserve	1,175	2,470
Movement in Market Value of Investment Properties (note 8)	(848)	201
Transfer to/(from) Capital Adjustment Account (note 8)	(1,131)	58,457
Voluntary Repayment of Debt	2,015	2,046
Short Term Accumulated Absences	(1)	-
Total Adjustments	(906)	61,930

COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2016/17		2017/18		
Total		Business Rates	Council Tax	Total
£000		£000	£000	£000
	<u>Income</u>			
(45,161)	Council Tax (Note 1)	-	(47,051)	(47,051)
(37,222)	Business Rates (Note 2)	(33,521)	-	(33,521)
(82,383)		(33,521)	(47,051)	(80,572)
	<u>Expenditure</u>			
	Apportionment of Previous Year Surplus/(Deficit)			
(2,314)	Central Government	(133)	-	(133)
(1,784)	Chesterfield Borough Council	(106)	38	(68)
68	Derbyshire County Council	(24)	272	248
(16)	Derbyshire Fire Authority	(3)	17	14
75	Derbyshire Police & Crime Commissioner	-	41	41
(3,971)		(266)	368	102
	Precepts, Demands & Shares			
18,521	Central Government	18,463	-	18,463
19,497	Chesterfield Borough Council	14,770	4,834	19,604
36,275	Derbyshire County Council	3,323	34,542	37,865
2,383	Derbyshire Fire Authority	369	2,069	2,438
5,006	Derbyshire Police & Crime Commissioner	-	5,148	5,148
81,682		36,925	46,593	83,518
	Charges to Collection Fund			
-	Write offs of uncollectable amount	-	-	-
34	Transitional Protection Payments	658	-	658
669	Increase/(Decrease) in bad debt provision (Note 5)	9	120	129
(130)	Increase/(Decrease) in provision for appeals (Note 6)	(1,061)	-	(1,061)
164	Cost of Collection Allowance	164	-	164
(3,935)	(Surplus)/Deficit arising during year	2,908	30	2,938
4,419	(Surplus)/Deficit Brought Forward	992	(508)	484
484	(Surplus)/Deficit as at 31st March (Notes 3 & 4)	3,900	(478)	3,422

COLLECTION FUND

NOTES TO THE ACCOUNTS

1. COUNCIL TAX

The Council's Tax Base i.e. the number of chargeable dwellings in each band converted to an equivalent number of Band D dwellings was calculated as follows:-

Band	Estimated No. of Properties	Ratio	Band D Equivalents
A disabled	34	5/9	19
A	16,768	6/9	11,179
B	8,307	7/9	6,461
C	5,371	8/9	4,774
D	3,398	9/9	3,398
E	1,671	11/9	2,042
F	498	13/9	720
G	198	15/9	329
H	10	18/9	20
Totals	36,255		28,942
Less adjustment for collection rate			(434)
Council Tax Base			28,508

The basic amount of Council Tax for a Band D property was £1,619.73 (£1,563.31 2016/17).

2. BUSINESS RATES

Central Government specifies the annual amount payable by businesses (47.9p in 2017/18 and 49.7p in 2016/17) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

A small business rate relief scheme was introduced by central government in 2005/06 and for those businesses eligible for this relief the multiplier is reduced to 46.6p for 2017/18 (48.4p in 2016/17).

The Council is responsible for collecting business rates due in its area. In previous years the proceeds were paid into the N.N.D.R. Pool administered by the Government. The Government redistributed the sums paid into the Pool back to local authorities through the Formula Grant process each year.

From 2013/14, this has been replaced by the Business Rate Retention Scheme. Income collected is now shared between the Council, Central Government and major preceptors in proportions laid down by Government. Councils are now able to retain a share of any growth in business rate income.

The total non-domestic rateable value at 31st March 2018 was £98,162,096 (£96,547,611 as 31st March 2017).

With effect from 1st April 2015, the Council became a member of the Derbyshire Business Rates Pool which is administered by Derby City Council. The advantage of the pool is that it creates an opportunity to generate additional business growth through collaborative working and to smooth out the impact of volatility in business rates income across a wider economic area.

Under the accounting arrangements for the Derbyshire Pool, instead of each authority paying a proportion of their growth in business rates above a baseline to central government, it pays this levy to the pool and receives a redistribution of growth back from the pool at the end of each financial year. The levy paid in 2017/18 was £471,769 and the redistributed growth received was £392,936.

3. **COLLECTION FUND SURPLUS/(DEFICIT) – COUNCIL TAX**

Surpluses or deficits relating to the Council Tax are shared between Derbyshire County Council, Derbyshire Police & Crime Commissioner, Derbyshire Fire Authority and the Borough Council in proportion to the precepts and demands issued and must be used to adjust the Council Tax. An estimated surplus of £523,799 was assumed when setting the Council Tax for 2018/19. The reduction in surplus of £46,127 will be recovered in the tax calculation for 2019/20.

ALLOCATION OF SURPLUS/(DEFICIT) ON COUNCIL TAX AT 31ST MARCH		
	2018 £000	2017 £000
Derbyshire County Council	354	375
Derbyshire Police & Crime Commissioner	53	57
Derbyshire Fire Authority	21	23
Chesterfield Borough Council	50	53
Council Tax (Deficit)/Surplus	478	508

The surplus attributed to Chesterfield Borough Council is initially included in the Comprehensive Income & Expenditure Statement, although the element that is redistributed in the tax calculation in 2019/20 is subsequently reversed out and included in the balance sheet as part of Unusable Reserves. The proportion of the collection fund attributable to the three precepting authorities is included in the accounts as a debtor.

4. **COLLECTION FUND SURPLUS/(DEFICIT) – BUSINESS RATES**

From 2013/14, surpluses or deficits relating to Business Rates are shared between Derbyshire County Council, Derbyshire Fire Authority, Central Government and the Borough Council in proportions fixed by Government. A deficit of £720,089 was assumed in the calculation of business rate income in 2018/19. The additional deficit of £3,180,188 will be recovered in the income calculation for 2019/20.

ALLOCATION OF SURPLUS/(DEFICIT) ON BUSINESS RATES AT 31ST MARCH		
	Proportionate Share	2018 £000
Derbyshire County Council	9%	(351)
Derbyshire Fire Authority	1%	(39)
Central Government	50%	(1,950)
Chesterfield Borough Council	40%	(1,560)
Council Tax (Deficit)/Surplus	100%	(3,900)

The deficit attributed to Chesterfield Borough Council is initially included in the Comprehensive Income & Expenditure Statement, although the element that is redistributed is subsequently reversed out in the balance sheet as part of Unusable Reserves. The proportion of the collection fund attributable to the other recipients is included in the accounts as a debtor.

5. **IMPAIRMENT OF DEBTS – WRITE OFFS & ALLOWANCES**

The arrears figure for Council Tax and Business Rates is disaggregated into an age profile with an assessment of the likelihood of recovery of the outstanding amounts for each year. This assessment is carried out using evidence of local patterns of collection and historical experience.

Individual assessments are carried out for council tax and business rate arrears to reflect the different types of customer and the different characteristics of each of these debt classifications.

The movements on the impairment provisions are shown below:

COLLECTION FUND – IMPAIRMENT ALLOWANCE				
Tax	Brought Forward	Write-offs in the year	Increase /(Decrease) in allowance	Carried Forward
	£'000	£'000	£'000	£'000
Business Rates	696	(30)	9	675
Council Tax	2,142	(40)	120	2,222
Total	2,838	(70)	129	2,897

6. **PROVISION FOR APPEALS – BUSINESS RATES**

Businesses can appeal against their rateable value, set by the Valuation Office Agency and any successful appeals must be met from the Collection Fund. A provision has been established to recognise this liability.

The movement on the appeals provision is shown below:

COLLECTION FUND – APPEALS PROVISION			
Brought Forward	Applied in year	Contribution to provision in year	Carried Forward
£000	£000	£000	£000
4,515	(2,658)	1,597	3,454

7. **PRECEPTS**

Details of the major precepts on the fund are shown in the expenditure section of the account. The precept paid to Chesterfield Borough Council includes £418,062 parish precepts (Staveley £368,763 and Brimington £49,299).

AUDITORS REPORT (Covering pages 22 - 110)

Expected by 31st July 2018



External Audit ISA260 Report 2017/18

**Chesterfield Borough
Council**

July 2018



Summary for Standards and Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Chesterfield Borough Council ('the Authority').

This report covers both our on-site work which was completed in March and June 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational environment and consider that the overall arrangements that have been put in place are reasonable.

Controls over key financial systems

The controls over the key financial systems are sound.

Accounts production

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is sound and enabled the Authority to meet the new timetable.

Financial statements

Subject to all outstanding queries being resolved to our satisfaction and final review, we anticipate issuing an unqualified audit opinion on the Authority's financial statements by the deadline of 31 July 2018.

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11):

- **Valuation of PPE** – where assets are subject to revaluation, the Code of Practice on Local Authority Accounting (which is the guidance which the Authority are required to follow, the Code) requires their year end carrying value to reflect the appropriate fair value at that date. The Authority has a rolling revaluation model over a five year cycle. This creates a risk that the carrying value of assets not revalued in year differs materially from the year end fair value. We found the valuation of PPE to be appropriate and have no issues to note.
- **Pensions Liabilities** – the pension liability is a material element of the Authority's balance sheet. The valuation relies on a number of assumptions, including the actuarial assumptions and actuarial methodology. There is a risk that the assumptions and methodology used are not reasonable. This could have a material impact in the financial statements. We found the liability to have balanced assumptions and have no issues to note. At the time of writing we are awaiting the assurance from the auditor of the pension fund. Our work in this area is subject to that report not raising issues for consideration.

Summary for Standards & Audit Committee (cont.)

Financial statements

- **Faster Close** – For the 2017/18 financial year, revised deadlines have been applied requiring draft accounts by 31 May and final signed accounts by 31 July. This caused a number of logistical challenges which, if not managed, could prevent the completion of the audit by 31 July. The Authority met the May deadline and the accounts were prepared to a good standard, supported by appropriate working papers.

We undertook an initial assessment of risks to the financial statements at planning stage and identified no significant risks other than the risk of management override of controls. We have updated our assessment and still consider there to be no additional specific risks.

We have identified no audit adjustments.

We will provide a verbal update on the status of our audit at the Standards and Audit Committee meeting but would highlight the following work is still outstanding:

- Elements of our work programme in regard to the Housing Revenue Account;
- Final Director review; and
- Receipt of Management Representations.
- Completion of our WGA work

Based on our work, we have not raised any recommendations.

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

- **Delivery of Budgets** – We will consider the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects and how budgets are monitored throughout the year. We have no concerns to raise as a result of our work.

See further details on page 22.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help throughout the audit process.

Section one

Control Environment

Control Environment

We have identified no significant issues with the Authority's organisational environment and consider that the overall arrangements that have been put in place are reasonable.

The controls over the key financial systems are sound.

Work completed

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment including the IT control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

Based on our work we have no flagged significant weaknesses in the design of controls within your key financial systems.

An overhead photograph of four business professionals (three women and one man) seated around a white conference table. They are dressed in business attire (white shirts, light blue shirts, and a grey top). The table has two laptops and a black folder. The scene is brightly lit with natural light from windows on the right, creating strong shadows. A blue horizontal band is overlaid across the middle of the image, containing the text.

Section two

Financial Statements

Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is sound – allowing it to meet the tighter timescales required this year.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is sound. We also consider the Authority's accounting practices appropriate. Further to this we are aware that the Authority intends to invest further time over the next 12 months with the introduction of the CIPFA Closedown System process which, if implementation runs smoothly, should lead to further efficiencies.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Completeness of draft accounts

We received a complete set of draft accounts on 25 May 2018, which is a week before the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the Chief Accountant. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good quality working papers with clear links back to the financial statements.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by officers, including those who are not part of the finance team. As a result of this, all of our audit work was completed within the timescales expected with no outstanding queries.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of 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. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried 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.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks – Authority

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

Risk	<p>Valuation of PPE</p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.</p>
Our assessment and work undertaken	<p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.</p> <p>In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>We have no concerns to raise as a result of this work.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 12.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority’s balance sheet. The Authority is an admitted body of Derbyshire County Council Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority’s overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
Our assessment and work undertaken	<p>As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the administering authority. The administering authority is responsible for submitting the information to the Scheme Actuary.</p> <p>This included consideration of the process and controls with respect to the assumptions used in the valuation of scheme assets. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund.</p> <p>We also evaluated the competency, objectivity and independence of Hymans Robertson. We also assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We are awaiting the assurance report from the auditor of the Pension Fund – our work in this area is subject to that report not raising further issues for consideration.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Issue	<p>Faster Close</p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>Since 2016/17, the Authority started to prepare for these revised deadlines and has invested time in the implementation of CIPFA’s Closedown System process to streamline the processes involved.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none">— Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;— Ensuring that the Standards and Audit Committee meeting schedules have been updated to permit signing in July; and— Applying a shorter paper deadline to the July meeting of the Standards and Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority’s Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.</p>
Our assessment and work undertaken	<p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements on 25 May 2018, ahead of the statutory deadline of 31 May 2018. The quality of this draft was to a high standard, consistent with prior years and was supported with working papers.</p> <p>As a result of this work we determined that the Authority has appropriate procedures in place to ensure faster close.</p>

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence						
0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
Acceptable Range						

Subjective area	2017-18	2016-17	Commentary
Property Plant & Equipment: HRA Assets	3	3	<p>The Authority continues its use of the beacon methodology in line with the DCLG’s <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority has utilised an appointed valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions.</p> <p>We have reviewed the significant movements highlighted by this valuation and have no issues to report.</p>
Property Plant & Equipment	3	3	<p>The Authority has a rolling programme of asset valuation to ensure all assets are valued at least once in a five year period. The valuation is carried out by the appointed valuer from Keir.</p> <p>Depreciation is applied in accordance with the Authority's accounting policies over the useful economic life of the asset, the estimated economic life of an asset are reviewed each year to ensure it is still reasonable.</p> <p>We consider the asset lives to be reasonable. The valuer has appropriate experience and qualifications required.</p>
Business Rates provision	3	2	<p>Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals.</p> <p>The NDR provision as at March 2018 is £1.8m (£1.4m in 2017/18). The Authority employs an independent company, Analyse Local, to inform its assessment of the appeals and assist in the calculation of an appropriate provision.</p>

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary																											
Valuation of pension assets and liabilities	3	3	<p>The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a discount rate of 2.65% would change the net liability by £2.0 million. This discount rate is offset by the cautious assumption for pensions increases.</p> <p>The actual assumptions adopted by the actuary fell within our expected ranges with the exception of the discount used as set out below:</p> <table><tr><th>Assumption</th><th>Actuary Value</th><th>KPMG Range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.70%</td><td>2.50%</td><td>5</td></tr><tr><td>Pension Increase Rate</td><td>2.40%</td><td>2.16%</td><td>1</td></tr><tr><td>Salary Growth</td><td>CPI plus 0.5%</td><td>CPI plus 0% to 2%</td><td>3</td></tr><tr><td>Life expectancy at retirement</td><td></td><td></td><td></td></tr><tr><td>Males currently aged 45 / 65</td><td>23.9 / 21.9</td><td>23.5 / 22.1</td><td rowspan="2">3</td></tr><tr><td>Females currently aged 45 / 65</td><td>26.5 / 24.4</td><td>25.4 / 23.9</td></tr></table> <p>Overall the KPMG actuary considered the assumptions used for the basis of IAS 19 figures to be balanced.</p>	Assumption	Actuary Value	KPMG Range	Assessment	Discount rate	2.70%	2.50%	5	Pension Increase Rate	2.40%	2.16%	1	Salary Growth	CPI plus 0.5%	CPI plus 0% to 2%	3	Life expectancy at retirement				Males currently aged 45 / 65	23.9 / 21.9	23.5 / 22.1	3	Females currently aged 45 / 65	26.5 / 24.4	25.4 / 23.9
Assumption	Actuary Value	KPMG Range	Assessment																											
Discount rate	2.70%	2.50%	5																											
Pension Increase Rate	2.40%	2.16%	1																											
Salary Growth	CPI plus 0.5%	CPI plus 0% to 2%	3																											
Life expectancy at retirement																														
Males currently aged 45 / 65	23.9 / 21.9	23.5 / 22.1	3																											
Females currently aged 45 / 65	26.5 / 24.4	25.4 / 23.9																												



Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Standards and Audit Committee on 25 July.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 1) for this year's audit was set at £1.4 million. Audit differences below £55,000 are not considered significant.

We did not identify any material misstatements.

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Chesterfield Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Chesterfield Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the S151 Officer for presentation to the Standards and Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements



Specific value for money risk areas

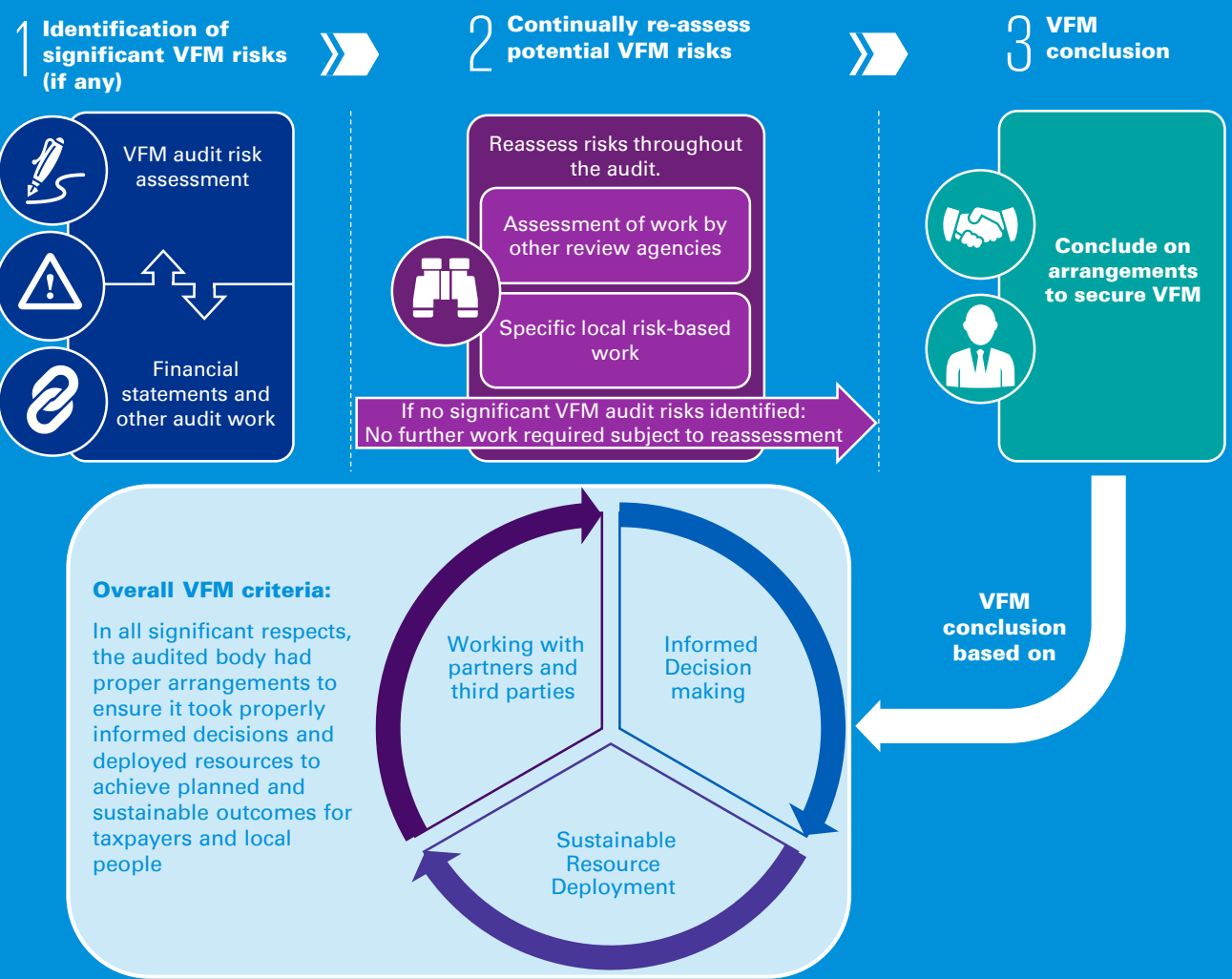
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.’

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.



Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18* we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority’s current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk	<p>Delivery of budgets</p> <p>After taking account of reductions in local authority funding alongside service cost and demand pressures, the Authority’s budget for 2017-18 included an initial savings requirement of £209k –taking the total reduction since 2010/11 to £5.186million.</p> <p>The Authority’s Medium Term Financial Plan (MTFP) published in February 2017 forecast a total deficit forecast for the period 2017/18 –2021/22 of £6.445m. Savings already identified by officers as at that date reduced this to £5.197m, and officers are currently finalising the formal updated MTFS for publication in February 2018.</p> <p>Such a large savings requirement in the context of limited un-earmarked reserves requires the Authority to scrutinise carefully the delivery of the overall budget, and to monitor individual savings and income generation plans to ensure that any delivery issues are identified and appropriate action taken</p>
Our assessment and work undertaken	<p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.</p> <p>We have completed our assessment by:</p> <ul style="list-style-type: none">• Regular liaison with the Director of Finance and key personnel;• Review of the Medium Term Financial Strategy 2018/19 to 2021/22; and• Review of 2017/18 outturn vs budget and 2018/19 budget. <p>The updated MTFP presented to Cabinet in February 2018 outlined the forecast outturn position for 2017/18. This report confirmed an improvement compared to the initial budgeted position, with a forecast estimated surplus of £0.976m achieved due to achievement of savings outlined within that year’s budget.</p> <p>This underspend has been built into the updated MTFP, and has made an important contribution to the Authority’s financial position by funding a range of restructuring and service investment costs (such as the planned investment in IT infrastructure) which otherwise would have fallen on the General Fund.</p> <p>The initial budget 2018/19 set out a proposed budget deficit of £0.458m. The updated MTFP currently shows a surplus of £0.056m. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, up to £1.1 million by 2021/22. We carried out testing of a number of the Authority’s saving schemes and have found that whilst overall there are good-quality schemes and robust reporting, the Authority needs to maintain focus on cost reduction in order to maintain a robust financial position in the medium term.</p>

Appendices

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in January 2018.

Materiality for the Authority's accounts was set at £1.4 million which equates to around 1.1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Standards and 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 Standards and Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

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

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £55,000 for the Authority.

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

Appendix 2:

Required communications with the Standards and Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 December 2018.
Adjusted audit differences	We have identified no adjusted differences as a result of our audit of the Authority's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Standards and Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<p>We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report (see pages 4 to 5).</p> <p>We have identified no deficiencies in internal control of a lesser magnitude than significant deficiencies.</p>
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report. It is possible that we may delay our certificate in order to complete our WGA reporting.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Required communications with the Standards and Audit Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 3 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.</p>



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF CHESTERFIELD BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 4, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	52,455	52,455
Review of new MRP policy*	600	
Total audit services	53,055	52,455
Allowable non-audit services		
Audit related assurance services	3,000	3,000
Total Non Audit Services	3,000	3,000
Mandatory assurance services (Housing Benefit certification)	6,465	6,465
Total Mandatory Assurance Services	3,000	3,000

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The % of non-audit fees compared to audit fees for the year was 6% (mandatory assurance services are not relevant as per AGN 01). We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole. * The additional fee for the review of the new MRP policy is subject to approval by the PSAA.

We confirm that all non-audit services were reported to the Standards and Audit Committee .

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Standards and Audit Committee .

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Standards and Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP
KPMG LLP



Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	3,000	3,000
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	6,465	6,465

Appendix 4:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £52,455 plus VAT which is consistent with the prior year.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee	52,455	52,455
Review of new MRP policy*	600	
Total audit services	53,055	52,455
Mandatory assurance services		
Housing Benefits Certification (work planned for September 2018)	6,465	6,465
Total mandatory assurance services	6,465	6,465
Audit-related assurance services		
Pooling of Housing Capital Receipts	3,000	3,000
Total audit-related assurance services	3,000	3,000
Allowable non-audit services – n/a		
Total allowable non-audit services		
Grand total fees for the Authority	62,520	61,920

All fees quoted are exclusive of VAT.

* Subject to approval from PSAA





The key contacts in relation to our audit 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 [...], 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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CREATE: CRT086281A

KPMG LLP
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ

25 July 2018

Dear Tony,

This representation letter is provided in connection with your audit of the financial statements of Chesterfield Borough Council (“the Authority”), for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes (including the Expenditure and Funding Analysis).

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority’s expenditure and income for the year then ended;
 - ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. The Authority has disclosed to you all information in relation to:

- a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements;
- and

- b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
12. Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
13. The Authority confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
14. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) *Employee Benefits*.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 25 July 2018.

Yours faithfully,

Director of Finance and Resources

Appendix to the Authority Representation Letter of Chesterfield Borough Council Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

For publication

Risk Management Strategy and Annual Review

Meeting: (1) Standards and Audit Committee
(2) Council

Date: (1) 25 July, 2018
(2) 10 October, 2018

Cabinet Portfolio Governance

Report by: Director of Finance & Resources

For publication

1.0 Purpose of report

- 1.1 To provide a report on the Risk Management developments during 2017/18 and to update the Risk Management Policy, Strategy and the Corporate Risk Registers for 2018/19.

2.0 Recommendations

- 2.1 To note the progress made on developing the Council's approach to risk management during 2017/18.
- 2.2 To recommend to the Full Council the approval of the Risk Management Policy, Strategy and the Corporate Risk Register for 2018/19.

3.0 Background

- 3.1 The Risk Management Strategy requires an annual review to be reported to the Council at the end of the financial year and the Corporate Risk Register at the start of the year.
- 3.2 The Standards and Audit Committee is required to consider the effectiveness of the Council's risk management arrangements.

4.0 Annual Review 2017/18

- 4.1 Extensive work was carried out early in 2017 to complete 'fact finding' documentation supplied by the Councils insurance Broker JLT for use in an insurance tender for all policies
- 4.2 The decision was made early in the process to renew the Councils commercial property policy for only 6 months from the 1st April 2017, enabling us to tender for a combined property cover.
- 4.3 The subsequent tender evaluation was completed for the numerous insurance lots and insurance providers appointed across all policies which became active on the 1st October 2017.
- 4.4 Contracts were awarded for 7 years with an option for the Council to cancel the contract at the end of either year 3 and 5.
- 4.5 The tender process enabled the Council to:-
- Achieve an annual savings of £187k per annum
 - Maintain existing levels of cover / excesses and in some areas obtain better coverage e.g. additional perils such as 'escape of water' for municipal buildings

- Appoint insurance companies who are well established in the local government market (Aspen and Zurich Municipal)

5.0 Risk Management Policy and Strategy

- 5.1 The Policy and Strategy documents are designed to clarify the corporate and operational elements and to further embed Risk Management within the organisation. The documents for 2018/19 are included in Appendix A.

6.0 Corporate Risk Register (CRR)

- 6.1 The management of corporate risks is an essential component of good governance and helps to ensure the delivery of services. It is therefore important that the CRR is reviewed regularly to take account of any changes in risk levels and to identify any new risks.
- 6.2 The content of the CRR had been reviewed and updated for 2018/19 via the Risk Management Group. Many of the corporate risks will be a permanent feature within the CRR whilst others, which relate to one-off type projects, will appear only for a limited period. The CRR Summary for 2018/19 is shown in Appendix B and the detailed Corporate Risk Register is shown in Appendix C.
- 6.3 The challenge for 2018/19 will be to implement the further actions highlighted or any other actions subsequently developed to bring the risk ratings to the 'target' level which reflects the Council's risk appetite i.e. the level of risk it is prepared to accept.

7.0 Risks and Uncertainties

- 7.1 The failure to have effective risk management arrangements in place which will identify and manage risk could have serious

consequences for the Council. The current key (red) risks to the Council in Appendix B/C are currently:

Description of Risk
CR1- Having a Sustainable Financial Plan - the ability to deliver priority services with the resources available.
CR4 - Investment & development of the ICT infrastructure - to ensure that a modern, efficient and reliable infrastructure is in place to support service delivery.
CR8a - Data protection - to ensure that we are protecting data in accordance with legislation and best practice including the GDPR and the UK Data Protection Act 2018.
CR8b - Cyber security - to ensure that we are protecting our internet-connected systems, including hardware, software and data, from cyberattacks.
CR12 - The provision of Social Housing - ensuring that the Council is able to support delivery of social housing and that there is a sustainable business plan for the Housing Revenue Account.

- 7.2 An evaluation of each of the Corporate Risks is included in Appendix B and C.

8.0 Financial Implications

- 8.1 The Council transfers funds during the year to maintain a £5k balance on the Risk Management Reserve which is managed by the Corporate Risk Management Group. The movements on the reserve during 2017/18 were as follows:

Description	£
Balance b/fwd April 2017	4,331
Add contribution for the year	2,149
<u>Less expenditure/commitments:</u>	
Risk Management Training – ZM	(1480)
Balance c/fwd at 31 st March 2018	5,000

8.2 The Council's insurance contract with Zurich included an allowance of £5k in 2017/18 and £2.5k for 2018/19 which must be used for risk management services provided by the company. The allowance was used in 2017/18, and will be used again in 2018/19, to help develop the corporate risk management arrangements and assist in reducing areas with high claims history.

8.3 The Council also maintains a number of earmarked reserves and provisions to cover the financial risks that it faces. The funds include the General Working Balance, the Budget Risk Reserve and the Insurance Reserve.

9.0 Equalities Consideration

9.1 None arising from the contents of this report.

10.0 Recommendations

10.1 To note the progress made on developing the Council's approach to risk management during 2017/18.

10.2 To recommend to the Full Council the approval of the Risk Management Policy, Strategy and Corporate Risk Register for 2018/19.

11.0 Reason for Recommendation

11.1 To ensure that effective risk management monitoring and reporting arrangements are in place.

Decision information

Key decision number	824
Wards affected	All
Links to Council Plan priorities	

Document information

Report author	Contact number/email
Kevin Hanlon	Ext. 5451
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix A	Risk Management Policy and Strategy
Appendix B	Corporate Risk Register Summary
Appendix C	Corporate Risk Register (Detail)

Chesterfield Borough Council

Risk Management Strategy

Version:	January 2018
Ratified By:	Corporate Risk Management Group
Date Ratified	TBC
Name of Executive Lead	Director of Finance and Resources
Date Issued	July 2018
Review date:	January 2019

Contents

	Risk Management Statement	3
1	Introduction	4
2	Risk Management Organisation	10
3	Roles & Responsibilities	11
4	Risk Management process	13
5	Links to other Business Processes	14
6	Communication	14
7	Training	15
8	Monitoring of Risk	15
9	Conclusion	15
Appendix A	Risk Grading	
Appendix B	Risk Management Glossary	
Appendix C	Glossary	
Appendix D	Corporate Risk Management Group Membership	

Risk Management Statement

It is the Council's policy to proactively identify, understand and manage the risks inherent in our services and associated within our plans and strategies, so as to encourage responsible, informed risk taking.

Risk management is all about understanding, assessing and managing the Council's threats and opportunities. The Council accepts the need to take proportionate risk to achieve its strategic objectives, but expects these to be appropriately identified, assessed and managed. Through managing risks and opportunities in a structured manner, the Council will be in a stronger position to ensure that we are able to deliver our objectives.

As a result, through risk management, the aims & objectives of Chesterfield's Risk Management Strategy are:

- ◆ Ensure that risk management becomes an integral part of corporate and service planning, decision making & project management.
- ◆ Enable the Council to deliver its priorities and services economically, efficiently & effectively.
- ◆ Protect the council's position when entering into new partnerships and/or evaluating existing partnerships.
- ◆ Align risk management and performance management to drive improvement and achieve better outcomes.
- ◆ Guard against impropriety, malpractice, waste and poor value for money.
- ◆ That risk management training forms part of the normal training / induction programmes that are given to officers and members on an on-going basis.
- ◆ Ensure compliance with legislation, such as that covering the environment, health and safety, employment practice, equalities and human rights.
- ◆ Minimise the prospects of any damage to the Council's reputation and/or undermining of public confidence in the organisation.
- ◆ To have a performance framework that continues to allow managers to proactively track performance, and assess / deal with risk in a timely fashion.

We recognise that it is not always possible, nor desirable, to eliminate risk entirely. However, visibility of these areas is essential, so that the Council can explore external options, such as insurance.

COUNCILLOR BLANK

Cabinet Member for Governance

Risk Management Strategy

1. Introduction

The effective management of risk is an important principle for all businesses to properly address. For local authorities such as Chesterfield, managing risk is a key element of our Corporate Governance responsibilities.

Risk Management has become an important discipline across all sectors of the economy since the turn of the decade. The Audit Commission has previously highlighted Risk Management as one of the key elements to having effective governance arrangements in place to meet corporate objectives.

This risk management strategy seeks to promote the identification, assessment and response to key risks that may adversely impact upon the achievement of the Council's stated aims and objectives. It also seeks to maximise the rewards that can be gained through effectively managing risk.

Risk Management is not new; the Council has been doing it effectively for many years. However, to comply with the Corporate Governance requirements the Council must ensure that its procedures are sufficiently formalised and reviewed at regular intervals to identify areas for improvement.

This strategy has been updated to clarify the arrangements for managing risk and to further embed Risk Management within the thinking of all Council employees, Officers and Members.

1.1 Purpose and objectives of the Strategy

The purpose of this Risk Management Strategy is to establish a framework for the effective and systematic management of risk, which will ensure that risk management is embedded throughout the Council and makes a real contribution to the achievement of the Council's vision and objectives. As a result, the objectives of this strategy are to:

- Define what risk management is about and what drives risk management within the Council;
- Set out the benefits of risk management and the strategic approach to risk management;
- Outline how the strategy will be implemented;
and
- Identify the relevant roles and responsibilities for risk management within the Council.

Effective risk management will require an iterative process of identification, analysis, and prioritisation, action, monitoring and reporting of material risk. The processes required to deliver these objectives will need to ensure:

- Clear identification of corporate aims and priorities, service objectives and key actions.
- Specification of roles and responsibilities in respect of risk management activities.
- Consideration of risk as an integral part of corporate and business processes.
- Requirements to analyse, prioritise, respond to, monitor and report on material and significant risks.
- Specification of guidance and support arrangements to assist officers in their consideration of risk.
- Facilitation of shared organisational intelligence and learning.

1.2 The Scope of Risk Management

Risk is anything that may prevent the Council from achieving its stated objectives. Risk management is the process of identifying what can:

- a. Go wrong, and then doing something about it; and/or
- b. Be an opportunity, and then trying to take advantage of it.

Risks will be managed through a series of provisions applying at different levels. These include:

- Expression of the corporate risk tolerance in corporate aims and service plans through application of our risk scoring methodology.
- At operational level by budget allocation and monitoring through effective performance management arrangements.
- At project level through application of established risk assessment techniques in compliance with business continuity planning.
- Good corporate governance provisions as provided by the Standards & Audit Committee's Terms of Reference.
- Incorporated into the Council's Annual Governance Statement.
- Examination of corporate and insurable risks to identify risk reduction measures (Corporate Risk Management Group).
- Provide for risk assessment evidence in all decision making processes of the Council by inclusion in Committee reportage.

- Maintain documented procedures, toolkits and guidance for use across the Council by application of the risk register process and usage advice.
- Provide officers with suitable information and training to enable them to perform their duty (Corporate Risk Management Group).
- Make all partners, providers and delivery agents aware of the Council's expectations on risk, both generally as set out in the Risk Management Policy, and where necessary, in particular areas of service delivery

1.3 Risk Management Definitions

There are a number of ways in which organisations express risks and as a result, the risk management definitions can vary. Therefore, we have included a risk management glossary of the Council's risk management definitions.

A full glossary of definitions can be found in **Appendix B**.

1.4 What is risk management?

Risk can be defined as ***“Risk can be defined as a threat that an event or action will adversely affect the Council's ability to achieve its objectives, perform its duties or meet expectations of its stakeholders”***

Risk Management - Risk is unavoidable, organisations' must manage risk in a way that can be justified to a level which is tolerable and as a result, risk is the chance that an event will occur that will impact upon the Organisation's objectives. It is measured in terms of impact and likelihood.

The holistic approach is vital to ensure that all elements of the organisation are challenged including decision making processes, working with partners, consultation, existing policies and procedures and also the effective use of assets – both staff and physical assets.

The risks facing the Council will change over time, some changing continually, so this is not a one off process. Instead the approach to risk management should be continual and the risks and the approach to managing them should be reviewed regularly.

It is important to note that **risks can also have an upside**; their impact can in some cases be positive as well as negative. Risk is also often said to be the flipside of opportunity so the whole risk management process can also help the Council identify positive opportunities that will take it forward. Risk management needs to be seen as a strategic tool and will become an essential part of effective and efficient management and planning.

1.5 Why do we want (and need) to do risk management?

Risk management will, by adding to the business planning and performance management processes, strengthen the ability of the Council to achieve its objectives and enhance the value of the services provided.

We are required to do it - Risk management is something that the Council is required to do, for example:

- The CIPFA/SOLACE framework on Strategic Governance requires the Council to make a public assurance statement annually, on amongst other areas, the Council's Risk Management Strategy, process and framework. The framework requires the Council to establish and maintain a systematic strategy, framework and processes for managing risk.

Benefits of risk management - Successful implementation of risk management will produce many benefits for the Council if it becomes a living tool.

- Achievement of the Council's objectives and vision;
- A consistent approach to the way risks are managed throughout the Council;
- Improved informed decision making – risks reported and considered within Council decision making;
- Becoming less risk averse in innovation (because you understand) and hence are more innovative;
- Improved business planning through a risk based decision making process;
- A focus on outcomes not processes;
- Improved performance (accountability and prioritisation) - feeds into performance management framework;
- Better governance - and demonstration of it to stakeholders; and
- Helping to protect the organisation.

1.6 Where does risk management fit?

In short the answer is **“everywhere”**. Effective risk management should be applied within all decision making processes at an *appropriate scale*. So the risk management approach should encompass all types of risks and the table below may aid in the identification of risks to the Council.

RISK MANAGEMENT POLICY & STRATEGY

Sources of risk	Risk examples
STRATEGIC	
Infrastructure	Functioning of transport, communications and infrastructure. Impact of storms, floods, pollution.
Legislative and Regulatory	Effects of the change in Central Government policies, UK or EU legislation, local and National changes in manifestos. Exposure to regulators (auditors/inspectors).
Social Factors	Effects of changes in demographic profiles (age, race, social makeup etc.) affecting delivery of objectives. Crime statistics and trends. Numbers of children/vulnerable adults 'at risk'.
Technological	Capacity to deal with (ICT) changes and innovation, product reliability, developments, systems integration etc. Current or proposed technology partners.
Competition and Markets	Cost and quality affecting delivery of service or ability to deliver value for money. Competition for service users (leisure, car parks etc). Success or failure in securing funding.
Stakeholder related factors	Satisfaction of the Council's taxpayers, Central Government, GOEM and other stakeholders.
Political	Local or national political issues that may impact on the Council meeting its Objectives
Economic	Affecting the ability of the Council to achieve its commitments
Social	Relating to the Council's ability to meet the effects of changes in demographic, residential or social/economic trends
Environmental	Environmental impact from Council, stakeholder activities (e.g. pollution, energy efficiency, recycling, emissions, contaminated land etc). Traffic problems and congestion.
OPERATIONAL (Internal influences)	
Finance	Associated with accounting and reporting, internal financial delegation and control, e.g. schools finance, managing revenue and capital resources, neighbourhood renewal funding taxation and pensions.
Human Resources	Recruiting and retaining appropriate staff and applying and developing skills in accordance with corporate objectives, employment policies, health and safety.
Contracts and Partnership	Failure of contractors to deliver services or products to the agreed cost and specification. Procurement, contract and life cycle management, legacy. Partnership arrangements, roles and responsibilities.
Tangible Assets	Safety and maintenance of buildings and physical assets i.e. plant and equipment, ICT equipment and control
Environmental	Pollution, noise, licensing, energy efficiency of day-to-day activities.
Processes	Compliance, assurance, project management, performance management, revenue and benefits systems, parking systems etc.
Legal	Relating to potential breaches of legislation
Physical	Related to physical damage, security, accident prevention and health & Safety
Professional Judgement and Activities	Risks inherent in professional work, designing buildings, teaching vulnerable children, assessing needs (children and adults).

Sources of risk	Risk examples
CORPORATE GOVERNANCE	
Integrity	Fraud and corruption, accountability, transparency, legality of transactions and transactions and limit of authority.
Leadership	Reputation, authority, democratic changes, trust and branding.
Policy and Strategy	Clarity of policies, communication. Policy Planning and monitoring and managing performance.
Data and information for decision making	Data protection, data reliability and data processing. Control of data and information. E-government and service delivery.
Risk Management	Incident reporting and investigation, risk analysis or measurement, evaluation and monitoring. Taking advantage of opportunities.

There is therefore a consistent approach from the top to the bottom of the Council. So a mechanism will exist for risks to be escalated up (bottom up) within the Council whilst the top risks are also explicitly identified and managed (top down).

In practice this means that the Council will carry out risk assessments and develop the following risk registers:

In practice, risks within the Council exist at many different levels (e.g., high level corporate risks to lower level everyday service based risks). For the purpose of this strategy, risks are split into two levels as follows:

- **Corporate Risk Register** – the strategic, high level council risks related specifically to the achievement of the Councils objectives; and
- **Operational Risks** – service based risks that may prevent individual service aims and objectives being met (and therefore impact upon the attainment of corporate objectives).

Given the changing landscape of local government the importance of projects and partnerships are ever increasing, so a more specific and tailored risk management approach is required.

2. Risk Management Organisational Structure

2.1 Reporting structure

The reporting structure for risk management is summarised below:



The risk management process is a continuous one and risks can therefore be reported at any time. However risks will be formally reported as follows:

- The Full Council will receive a report on the Council's key risks twice a year.
- The Executive Members will receive quarterly risk management reports for information purposes.
- Standards & Audit Committee will review the effectiveness of the Risk Management arrangements and receive risk management reports twice a year.
- The Senior Leadership Team and Corporate Management Team will consider the Corporate Risk Management Group minutes and summary risk management reports on a quarterly basis.
- Overall responsibility for ensuring that the Council has the appropriate systems in place to manage business risk lies with the Council's Corporate Risk Management Group (CRMG). In effect, CRMG are the sponsors for Risk Management within the Authority. Responsibility for managing specific business risks at an operational level lies with Service Managers and their dedicated Officers. The Director of Finance and Resources will 'champion/coordinate' the process on behalf of CRMG.
- Service Managers are required to carry out a comprehensive review of their risk registers as part of the annual service planning process. In addition the service risk registers need to be reviewed every 2 months (prior to the CRMG meetings). All Service Risk Registers need to be posted on the Council's intranet site. Risk also needs to be a standing regular item at service management and team meetings, and service risks need to be communicated to relevant staff.

3. Roles and Responsibilities

In cases of operational risk, risk management will follow existing service management arrangements. Corporate risks will be managed at Senior Officer Level. The Corporate Risk Management Group will be accountable to the Corporate Management Team and will be the “driving force” behind developing and implementing the Council’s Risk Management Strategy. Membership of the Group is shown at **Appendix D**. The Group will seek to enhance the linkage between Service Line Managers and the Corporate Management Team.

Risk needs to be addressed at the point at which decisions are being taken. Where Members and Officers are asked to make decisions, they should be advised of the risks associated with recommendations being made as necessary. The Council needs to be able to demonstrate that it took reasonable steps to consider the risks involved in a decision. Risks must be addressed within Committee reports, as part of the corporate check.

There needs to be a balance between the efficiency of the decision making process and the need to address risk. All key reports, including new and amended policies and strategies, need to include a section to demonstrate that risks have been addressed.

In order to ensure the successful implementation of the strategy, roles and responsibilities have been reviewed and are updated in the following table;

Group or individual	Roles & Responsibilities
Full Council	<ul style="list-style-type: none"> ▪ Formal approve and adoption of the Risk Management Strategy (annually or as required); ▪ Approve the Corporate Risk Register (annually); ▪ Receive monitoring reports (mid and end of year);and ▪ Contribute to the identification of Corporate risks.
Cabinet	<ul style="list-style-type: none"> ▪ To review the Strategy and monitoring reports before going to the Full Council.
Standards & Audit Committee	<ul style="list-style-type: none"> ▪ To review the effectiveness of the Risk Management arrangements; and ▪ Receive reports including the annual statement of Internal Control/external audit reports/effectiveness of internal audit.
Senior/ Corporate Management Team	<ul style="list-style-type: none"> ▪ Scrutinise significant risks in more detail as part of their annual work programme, as appropriate; ▪ Take corporate responsibility for risk; ▪ Address issues that cannot be addressed within service budgets or risk management fund of an extreme or high assessment; ▪ Receive report of all extreme or high assessments; ▪ Receive minutes of Corporate Risk Management Group. ▪ Nominate an Officer Champion for Risk Management; ▪ Champion and take overall responsibility for implementing the Risk Management Framework and embedding risk management throughout the Council;

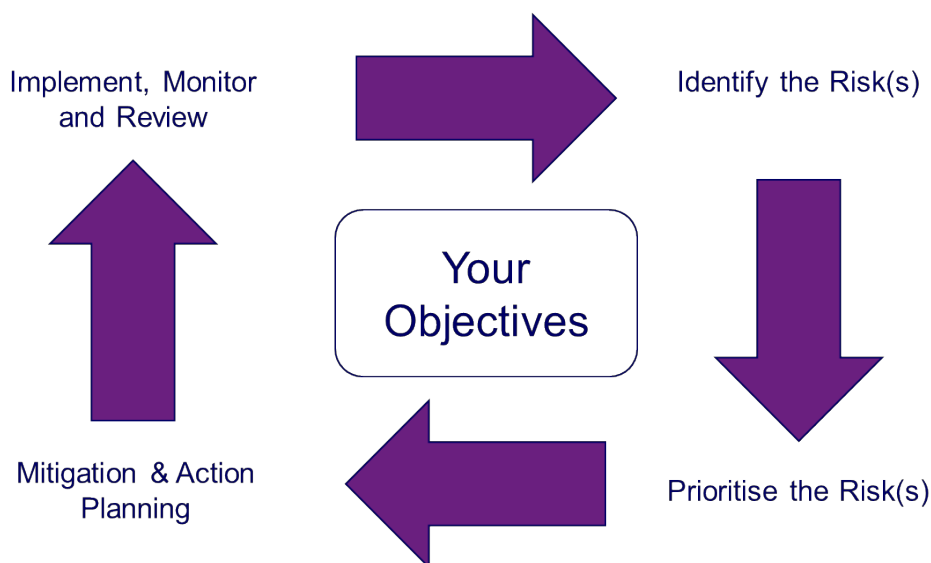
RISK MANAGEMENT POLICY & STRATEGY

<p style="text-align: center;">Corporate Risk Management Group (CRMG)</p>	<ul style="list-style-type: none"> ▪ Meet (6 times a year) as per the CRMG timetable ▪ Overall responsibility for ensuring that processes are in place to effectively manage risks within the Council; ▪ Increase awareness of RM – cascade to service management teams and other team meetings; ▪ Produce the Strategy and monitoring reports for members; ▪ Identify and commission projects for Risk sub-groups; ▪ Receive and consider reports from any Risk sub-groups; ▪ Formulate monitor and update the Corporate risks register; ▪ Review Service risk registers as per the CRMG timetable ▪ Report to CMT at the defined frequency all highly scored risks; ▪ Preparing and recommending changes to the risk management strategy; ▪ Identifying and assessing risks; ▪ Review Insurance claims analysis in order to identify ways of reducing or eliminating future claims; ▪ Identify good practice and share learning; ▪ Identify new and emerging risks for inclusion in the Corporate Risk Register or Operational Risk Registers; ▪ Approve the use of the RM budget and Training days; ▪ Arranging and providing risk management training as appropriate.
<p style="text-align: center;">Service Managers</p>	<ul style="list-style-type: none"> ▪ Ensure that risk management is incorporated into service plans and project plans. ▪ Review Service Risk Registers every 2 months. ▪ Review risk treatment schedules as identified by the line managers and team leaders; ▪ Review risk action plans and ensure they are implemented; ▪ Contribute towards the identification and management of operational risks for their service; ▪ Maintain awareness of and help promote the approved risk management strategy to all staff; ▪ Ensure that risks which have been identified are addressed and mitigated and that any high risks are addressed urgently ▪ Identify, analyse and profile operational risks through their individual monthly performance clinic. The role of the performance clinic is pivotal to challenging and understanding the risk view as well as gaining confidence that the risks will be managed. ▪ To provide annual assurance on the effectiveness of controls in place to identify and mitigate risks within their service through the annual service planning process ▪ To maintain awareness of and promote effective risk management techniques (incl. awareness of the strategy and policy) to all relevant staff; and ▪ Ensure that risk issues are highlighted in reports to Members.
<p style="text-align: center;">Line Managers & Team Leaders</p>	<ul style="list-style-type: none"> ▪ Identify and analyse risks; ▪ Undertake assessments at service level; ▪ Evaluate risk/performance risk assessment ▪ Prepare risk register entries; ▪ Prepare the risk treatment schedule; and ▪ Prepare risk action plan.
<p style="text-align: center;">All Employees</p>	<p>All employees have a responsibility to:</p> <ul style="list-style-type: none"> ▪ Manage risk effectively in their job and report opportunities and risks to their service managers; ▪ Participate in risk assessment and action planning where appropriate; ▪ Adhere to Council policies and procedures; and ▪ Attend training and development sessions as appropriate.

Project Leaders	<ul style="list-style-type: none"> Project leaders have a responsibility to ensure that the risks associated with their projects are identified, recorded and regularly reviewed as part of the project management process.
Internal Audit (Consortium Audit)	<p>Internal Audit's role is to maintain independence and objectivity. Internal Audit is not responsible or accountable for risk management or for managing risks on management's behalf. Internal Audit will:</p> <ul style="list-style-type: none"> Audit the risk management process; Assess the adequacy of the mechanisms for identifying, analysing and mitigating key risks; Provide assurance to officers and Members on the effectiveness of controls; <p>And</p> <p>The Risk Register will drive the Internal Audit Plan to ensure resources are used on the areas of highest risk and where the need for assurance is greatest.</p>

4. Risk Management Process

The risk management process is the same for the management of both strategic and operational risks. The process comprises of the following four basic steps; these are indicated in the diagram below and should be driven by the Council's objectives.



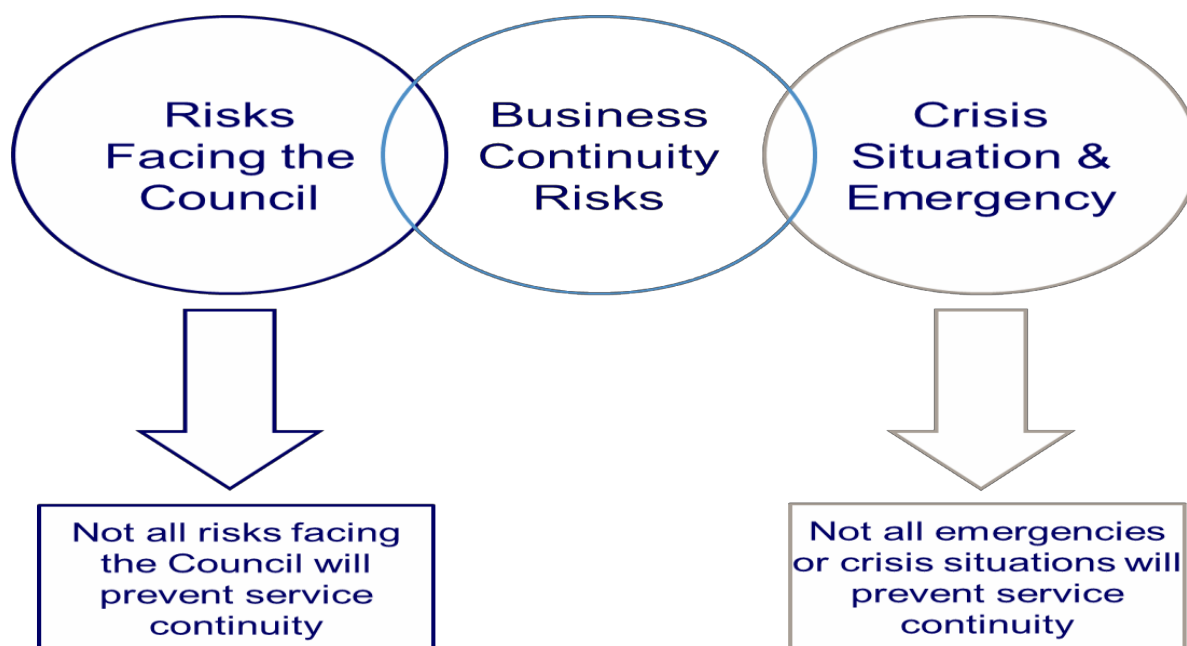
Having identified a risk there are four basic choices about how to deal with it – the 4T's:

- **Treat** the risk (i.e. do something about it)
- **Tolerate** the risk – (i.e. accept it as it is)
- **Transfer** the risk – (i.e. pass it to someone else, for example insurance)
- **Terminate** the risk – (i.e. cease the activity that gives rise to the risk)

5. Links to other Processes

Risk management, emergency planning and business continuity

There is a link between these areas however it is vital for the success of risk management that the roles of each, and the linkages, are clearly understood. The diagram below sets out to demonstrate the differences.



Risk management is about trying to identify and manage those risks which are more than likely to occur and where the impact on the Council's objectives can be critical or even catastrophic.

Business continuity management is about trying to identify and put in place measures to protect the priority functions against catastrophic risks that can stop the organisation in its tracks. There are some areas of overlap e.g. where the I.T infrastructure is not robust then this will feature as part of the organisation risk assessment and also be factored into the business continuity plans.

Emergency planning is about managing those incidents that can impact on the community (in some cases they could also be a business continuity issue) e.g. a plane crash is an emergency, it becomes a continuity event if it crashes on the office.

6. Communication

The Risk Management Strategy can be found on the Council's intranet site so that all members of staff can have access and easily refer to it. The strategy will be reviewed each year and following any key changes e.g. Central Government policy, inspection regimes and following any internal reorganisation. The Strategy will be re-issued annually via the intranet site.

7. Training

Workshops will be facilitated by experienced Officers and/or specialists in Business Risk Management. After attending the workshops, Officers should be sufficiently confident to undertake the process of risk identification within their service areas.

Risk analysis, control and monitoring, will lead to the determining of targets for improvements for inclusion in service plans.

8. Monitoring of Risk

The Council will monitor risk in the following ways:

- Risk Assessments will be undertaken annually to reflect Service Plan Objectives and Key Actions.
- The Council risk register, both strategic and operational will be the prime record which contains risk assessments, mitigation controls and review frequency information in accordance with the Councils Risk Management Methodology.
- The Corporate Risk Management Group will comply with their Terms of Reference.
- Internal Audit will review the Council's risk management arrangements as part of its strategic audit plan.

9 Conclusion

This strategy will set the foundation for integrating risk management into the Council's culture. It will also formalise the process to be applied across the Council to ensure consistency and clarity in understanding the role and benefits of corporate risk management.

Every two months reporting and escalation of risks should interlock with the existing arrangements for performance reporting. The intention being that the management of risk is incorporated into business plans and monitored through the performance management framework.

The adoption of the strategy will formalise the risk management work undertaken to date and will move the Council towards meeting the requirements of recognised best practice and inspection.

APPENDIX A -RISK MANAGEMENT FRAMEWORK

	Corporate Risk Register (owner: Director of Finance and Resources)						
Risk Register	Resources	Customers Commissioning and Change	Housing	Economic Growth	Commercial Services	Health and Wellbeing	Policy and Communications
Risk Register Owner Exec Member	Director of Resources (Kevin Hanlon) Deputy Leader & Cabinet Member for Planning	Assistant Director Customers Commissioning and Change (Rachel O'Neil) Cabinet Member for Business Transformation	Assistant Director Housing (Alison Craig) Cabinet Member for Housing	Assistant Director Economic Growth (Neil Johnson) Leader & Cabinet Member for Regeneration / Cabinet Member for Town Centre & Visitor Economy	Assistant Director Commercial Services (Michael Brymer) Leader & Cabinet Member for Regeneration / Cabinet Member for Housing	Assistant Director Health and Wellbeing (Ian Waller) Cabinet Member for Health and Wellbeing	Assistant Director Policy and Communications (Donna Reddish) Cabinet Member for Governance
Service areas: Including related Business Continuity and Health & Safety issues.	Accountancy	Property and Procurement	Council Housing. HRA Business Planning & Housing Strategy.	Development & Growth.	Landscape & Street-scene	Landscape & Street-scene	Policy
	Internal Audit	Business Transformation		Cultural & Visitor Services.	Operational Services	Environmental Health	Communications & Marketing
	Insurance	Support Services			Customer Services.	Sports & Leisure	
	Regulatory & Local Government Law	PPP Client					
	Democratic & Electoral Services.	GP:GS					
		Customer Services					

APPENDIX C: GLOSSARY

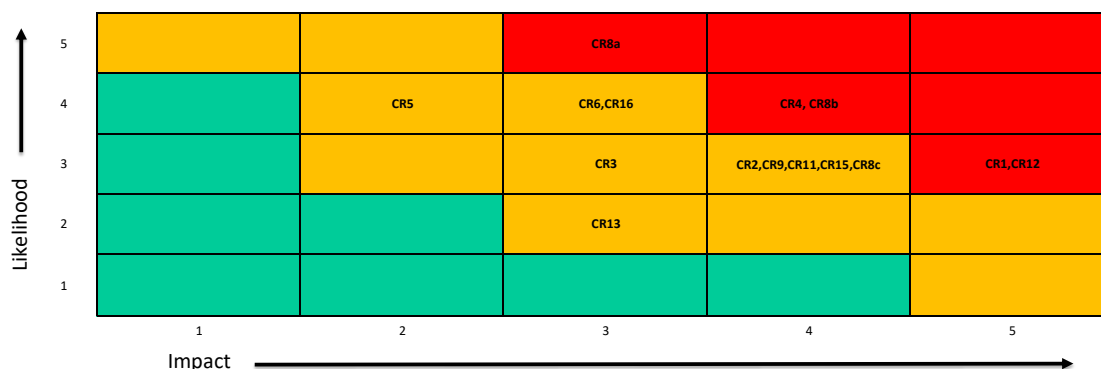
Risk	Risk can be defined as a threat that an event or action will adversely affect the Council's ability to achieve its objectives, perform its duties or meet expectations of its stakeholders.
Hazard	Anything that has the potential to cause harm.
Risk Management	Risk is unavoidable, organisations' must manage risk in a way that can be justified to a level which is tolerable and as a result, risk is the chance that an event will occur that will impact upon the Organisation's objectives. It is measured in terms of consequence and likelihood.
Assessing risks	The approach and process used to prioritise and determine the likelihood of risks occurring and their potential impact on the achievement of the Council's objectives.
Contingency	An action or arrangement that can be put in place to minimise the impact of a risk if it should occur.
Control (control measures)	Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.
Corporate Governance	Set of internal controls, processes, policies, affecting the way the Council is directed, administered or controlled.
Service risk	Significant operational risks which affect the day-to-day activities of the council.
Identifying risks	The process by which events that could affect the achievement of the Council's objectives, are drawn out and listed.
Risk Prioritisation	Risk prioritisation is the process used to evaluate the hazard/ risk and to determine whether precautions are adequate or more should be done. The risk is compared against predetermined acceptable levels of risk.
Impact	The effect that a risk would have if it occurs.
Issue	An event or concern that has occurred or is taking place and needs to be addressed (as opposed to a risk which has not yet, or might not, occur).
Consequence	A measure of the impact that the predicted harm, loss or damage would have on the people, property or objectives affected.
Likelihood	A measure of the probability that the predicted harm, loss or damage will occur
Risk Treatment	The action(s) taken to remove or reduce risks
Managing and controlling risks	Developing and putting in place actions and control measures to treat or manage a risk.
Control	The control of risk involves taking steps to reduce the risk from occurring such as application of policies or procedures.
Mitigation (Plan)	A strategy that reduces risk by lowering the likelihood of a risk event occurring or reducing the impact of the risk should it occur.
Objective	Something to work towards – goal.
Operational risk	Risks arising from the day to day issues that the Council might face as it delivers its services.
Overall risk score	The score used to prioritise risks – impact multiplied by likelihood.
Risk Assessment	Analysis undertaken by management when planning a new process or changing an existing procedure to identify risks that may occur, their potential impact and likelihood of occurrence. It will also identify the controls needed to control the risk and who is responsible for this.
Risk Register	A risk register is a log of risks of all kinds that threaten an organisations success in achieving its objectives. It is a dynamic living document which is populated through the organisations risk assessment and evaluation process. The risk register enables risks to be quantified and ranked. It provides a structure for collating information about risks.

APPENDIX D – CORPORATE RISK MANAGEMENT GROUP – MEMBERSHIP

Member	Officer	Title	Role
Member/Chair	Kevin Hanlon	Director of Finance and Resources	Chair and Resources Risk Lead
Member	Rachel O’Neil	Assistant Director Customers, Commissioning and Change	Customers, Commissioning & Change Risk Lead
Member	Alison Craig	Assistant Director Housing	Housing Risk Lead
Member	Neil Johnson	Assistant Director Economic Growth	Economic Growth Risk Lead
Member	Michael Brymer	Assistant Commercial Services	Commercial Services Risk Lead
Member	Ian Waller	Assistant Director Health and Wellbeing	Health & Wellbeing Risk Lead
Member	Donna Reddish	Assistant Director Policy and Communications	Policy & Comms. Risk Lead
Member	Cllr Sharon Blank	Cabinet Member for Governance	Independent
Attendee	Peter Schriewersmann	PPP Site Director	PPP – arvato/Kier
Attendee	Sam Sherlock	Emergency Planning & Business Continuity	Business Continuity Support
Attendee	Gerard Rogers	Regulatory & Local Government Law Manager	Legal Service and Monitoring Officer
Attendee	Jenny Williams	Head of Internal Audit	Internal Audit Representative
Attendee	Marc Jasinski	Health and Safety	Health & Safety Representative
Attendee	Richard Staniforth	Deputy Chief Accountant	Finance , Risk & Insurance Representative
Attendee	Anita Gill	Insurance	Insurance Representative
Attendee	Mick Blythe	PPP Client Officer	PPP Client Representative

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Corporate Risk Register Summary



Risk Reference		Risk Rating (Maximum Score = 25)		
		Start of Year	Current	Target
CR1	Having a Sustainable General Fund Financial Plan - the ability to deliver priority services with the resources available.	15	15	12
CR2	Transformation / Change Management - managing change effectively to deliver the required transformational changes and savings.	12	12	8
CR3	Workforce - to ensure that we have the right skills and capacity to deliver the Council's priorities.	9	9	6
CR4	Investment & development of the ICT infrastructure - to ensure that a modern, efficient and reliable infrastructure is in place to support service delivery.	16	16	12
CR5	Emergency Planning & Business Continuity - to ensure that we are able to respond effectively to unexpected events, minimising any damage caused and keeping services running.	8	8	8
CR6	Protecting the Public & Staff (Health & Safety) - to ensure that we have systems in place to reduce the risk of accidents occurring and their severity.	9	12	12
CR7	Welfare Reform	N/A	N/A	N/A
CR8a	Data protection - to ensure that we are protecting data in accordance with legislation and best practice including the GDPR and the UK Data Protection Act 2018.	8	15	12
CR8b	Cyber security - to ensure that we are protecting our internet-connected systems, including hardware, software and data, from cyberattacks.	16	16	12
CR8c	Records management - to ensure that our records are stored correctly, easily retrieved and are disposed of correctly at the end of their life cycle	16	12	12
CR9	Procurement & Contract Management - to ensure that contracts are procured properly and deliver value for money.	12	12	12
CR10	Local and National Elections	N/A	N/A	N/A
CR11	Key Partnerships (e.g. PPP, Veolia) - to ensure that partnerships are used to support the delivery of the Council's priorities and that they are delivered to the specified standard.	12	12	12
CR12	The provision of Social Housing - ensuring that the Council is able to support delivery of social housing and that there is a sustainable business plan for the Housing Revenue Account.	15	15	12
CR13	Safeguarding Children and Vulnerable Adults - the ability to fulfill our moral and legal obligations to ensure a duty of care for children and vulnerable adults across our services and facilities.	12	8	8
CR14	Combined Authority	N/A	N/A	N/A
CR15	Non-Housing Property Maintenance Programme & Funding.	12	12	4
CR16	Brexit	12	12	9

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Corporate Risk Register

REF	RISK DESCRIPTION (HEADLINE)	RISK CAUSE	RISK EFFECT	EXISTING CONTROLS IN PLACE TO MITIGATE THE RISK	CURRENT RISK RATING			FURTHER ACTION REQUIRED	TARGET RISK RATING			TARGET COMPLETION DATE(S)	RISK LEAD
					LIKELIHOOD	IMPACT	RISK RATING (LxI)		LIKELIHOOD	IMPACT	RISK RATING (LxI)		
CR1	Having a Sustainable General Fund Financial Plan - the ability to deliver priority services with the resources available.	Changes in: - RSG, Business Rates retention & Growth, Council Tax limitation & collection rates, New Homes Bonus, etc. - Cost pressures e.g. pensions, pay, inflation, interest rates etc. - Other unforeseen events - Capital schemes under budget	- Re-assessment of the range & scope of services currently provided & the Corporate Plan priorities. - Short-term use of reserves - Worst case - financial failure - Critical external inspection / audit reports - Damage to reputation - Public expectations / reaction - Loss of member confidence - Loss of staff morale - Impact on Asset Management Plan - Significant cuts to services	- 5 year MTFP produced - Prudent assumptions re income levels and collection rates - Budget monitoring & reporting (to Finance Board, Scrutiny & Cabinet) - Great Place: Great Service Programme approved - Asset Management Plan - Budget Challenge sessions - Expenditure and vacancy control - Treasury Management Plan	3	5	15	- Horizon scanning to identify future pressures & opportunities (on-going) - Assess implications of Local Gov't Finance review - NHB, retained business rates - Rigorous budget monitoring to identify variances early & implement corrective action (quarterly) - Regularly update the assumptions in the 5 year MTFP & model the options (quarterly) - Delivering the savings targets included in the budget and identify further significant savings or income generation - CMT / Exec Members Budget Group to identify & implement further budget efficiency required to eliminate forecast deficits (on going) - Development of trading opportunities to increase income - Assess the business rates devolution deal and retain	3	4	12	Short / Med term - balanced budget in Feb each year Med / Long term - self sufficient by 2020	DoF&R Supported by SLT
CR2	Transformation / Change Management - managing change effectively to deliver the required transformational changes and savings.	- Failure to develop & implement the required projects due to capacity issues, skills gaps, resistance to change, poor project management etc. - Competitor responses and other challenges to commercial activities.	- Loss of expertise and/or experienced staff - Scarce resources not used effectively - Budget shortfalls - Delivery timelines not adhered to - Increase in financial costs - Legal, financial and reputational implications if commercial activities not structured and managed	- Transformation strategy produced - Project academy - Increased focus on commercialisation - Great Place: Great Service programme - Staff and Union consultation - Political leadership & TU's meetings - £150k budget approved in 2016/17 to finance additional resources required to implement the savings targets	3	4	12	- Delivery of the current savings targets - CMT to prioritise resources onto cash releasing projects - Identify and secure other savings required to bridge any forecast deficit - Post implementation reviews - Training of a wider group of staff in transformation techniques - Improving communications and engagement with staff - 'Solid Foundations' work in GPGS - Develop the Target Operating Model (TOM)	2	4	8	March 2018	Business Transformation Manager Supported by SLT
CR3	Workforce - to ensure that we have the right skills and capacity to deliver the Council's priorities.	- Loss of key people within the organisation e.g. loss of corporate memory and key skills - Lack of training - due to for example budgetary pressures - No effective succession planning - Difficulties in recruitment and retention of key skills / staff - Lack of mid to long term planning	- Inability to deliver services to the desired standard or projects effectively - Performance suffers due to low morale & job fears - Increased sickness (stress related) - Impact on staff health & well being - Financial e.g. severance costs arrangements	- Workforce Strategy produced - PDR process / competency frameworks - Communications - Leader / CEO staff briefings, Borough Bulletin etc. - Internal Comms Strategy - SLT / CMT leadership	3	3	9	- Workforce strategy development - Identify opportunities for staff development & succession planning (PDR process) - Review of staffing as per service plans and restructuring - Voluntary redundancy / early retirement scheme (on-going)	3	2	6	Ongoing	Service Managers
CR4	Investment & development of the ICT infrastructure - to ensure that a modern, efficient and reliable infrastructure is in place to support service delivery.	- Lack of resources and expertise to develop the infrastructure and manage the technology life cycle - Ad-hoc development and flawed project documentation - Reliance on Partner expertise and resources	- Inefficient & expensive services - Poor service outcomes - Additional Project delays	- ICT Strategy written & governance structure in place - Invest-to-Save budgets approved. - Strategies incorporated into GP:GS	4	4	16	- Resource and implement the ICT strategy and Invest significant financial capital - Enforce new governance - Centralise ICT budgets - Improve project documentation - Rationalise ICT assets	3	4	12	March 2019	PPP Client Officer Supported by SLT
CR5	Emergency Planning & Business Continuity - to ensure that we are able to respond effectively to unexpected events, minimising any damage caused and keeping services running.	1. Lack of operational monitoring of the ICT infrastructure (automated or manual) 2. Lack of resilience of the ICT infrastructure 3. Lack of comprehensive ICT disaster recovery plan (including tests and linkage to the business continuity plans)	1. Service disruption. 2. Potential loss of personal data leading to enforcement action (either primarily through lack of backup of data or through information security incidents as a result of ad hoc untested business continuity scenarios)	1. Partial monitoring of the ICT infrastructure and incident management by ICT 2. Ability to call on wider Arvato resources in the event of an incident 3. Emergency planning officer, policies and procedures in place for emergency planning and disaster recovery 4. Actual live incidents have contributed to	4	2	8	1. Key infrastructure needs to be monitored effectively. 2. Systems with increased resilience need implementing. 3. Fit for purpose disaster recovery plans and procedures need to be in place.	4	2	8	March 2019	Emergency Planning Officer Service Managers

Corporate Risk Register

REF	RISK DESCRIPTION (HEADLINE)	RISK CAUSE	RISK EFFECT	EXISTING CONTROLS IN PLACE TO MITIGATE THE RISK	CURRENT RISK RATING			FURTHER ACTION REQUIRED	TARGET RISK RATING			TARGET COMPLETION DATE(S)	RISK LEAD
					LIKELIHOOD	IMPACT	RISK RATING (LxI)		LIKELIHOOD	IMPACT	RISK RATING (LxI)		
CR6	Protecting the Public & Staff (Health & Safety) to ensure that we have systems in place to reduce the risk of accidents occurring and their severity.	<ul style="list-style-type: none"> - Failure to manage the health & safety risk of the Council's undertakings - Lack of training - Budget pressures - Ageing infrastructure 	<ul style="list-style-type: none"> - Death or injury - Damage to property or the environment - Litigation or prosecutions - Financial - claims - Damage to reputation 	<ul style="list-style-type: none"> - Corporate H&S group established - Preparation of Corporate H&S policy - 3 year H&S Improvement Programme agreed - Service level H&S plans - Control of contractors procedures & group established - Transport Code of Practice approved & being implemented - Two external H&S audits - Internal audit methodology developed and agreed - Record training undertaken and monitor refresh dates 	4	3	12	Corporate H&S staff to undertake audits to ensure that: <ul style="list-style-type: none"> a) Policies and procedures are implemented and reviewed regularly; and b) the actions in the improvement programme are implemented c) Further resource H&S Improved on-line training systems 	4	3	12	Ongoing	Business Transformation Manager
CR8a	Data protection - to ensure that we are protecting data in accordance with legislation and best practice including the GDPR and the UK Data Protection Act 2018.	Lack of adequate governance, policy, procedures, technology, training, etc.	<ol style="list-style-type: none"> 1. Distress to data subjects 2. Fraud 3. Monetary penalties 4. Loss of reputation 	<ul style="list-style-type: none"> - Policies - Roles and responsibilities - Information governance meetings - Learning Pool training 	5	3	15	<ol style="list-style-type: none"> 1. Improved formal information governance arrangements (implementing policies, audit actions, service plan, training, etc.) 2. Implementation of Flowz solution 	4	3	12	Ongoing	Information Assurance Officer
CR8b	Cyber security - to ensure that we are protecting our internet-connected systems, including hardware, software and data, from cyberattacks.	<ol style="list-style-type: none"> 1. Obsolete asset (hardware, software, firmware) 2. Unsecure configuration of assets 3. Lack of security controls 	<ol style="list-style-type: none"> 1. Data protection risk effects 2. Denial of service 	<ol style="list-style-type: none"> 1. Controls in place to achieve PSN compliance including Patch management and ITHC remediation work 2. Controls in place to achieve Cyber Essentials PLUS compliance 3. Other controls operated by ICT (leavers process/responding to alerts/monthly checks) 4. Other controls operated by 3rd party (cloud security/managed services) 	4	4	16	<ol style="list-style-type: none"> 1. 2018 IT Health Check remediation plan 2. External internet facing vulnerabilities (Trustwave report) remediation plan 3. GDPR project ICT security risks 4. Information security policy gap analysis 	3	4	12	Ongoing	Information Assurance Officer
CR8c	Records management - to ensure that our records are stored correctly, easily retrieved and are disposed of correctly at the end of their life cycle	<ol style="list-style-type: none"> 1. Lack of a comprehensive records management framework and policy 2. Culture of holding onto paper records 3. Lack of records management technology (e.g. document scanning) 	<ol style="list-style-type: none"> 1. Physical space needs for storing paper or electronic records 2. Risk of paper information being lost or stolen 3. Workload requirements of responding to information requests (foi/eir/sar) where lots of information is stored 	<ol style="list-style-type: none"> 1. A number of rooms used for storing paper records 2. A number of network shares in use for storing electronic records 3. A number of document management systems in use 	4	3	12		4	3	12	Ongoing	Information Assurance Officer
CR9	Procurement & Contract Management - to ensure that contracts are procured properly and deliver value for money.	Failure to adequately manage Council contracts	<ul style="list-style-type: none"> - Financial impact (valuable funding is used for rectification costs) - Increase in staff resource to defend the challenge - Potential litigation and fines being procured - The Council does not receive value for money - Discouraged providers may not tender for the contract in the future - potentially reducing the portfolio of providers 	<ul style="list-style-type: none"> - Dedicated procurement & legal team to support where necessary on contract management - policies and procedures in place - scheme of delegation and guidance available - staff have been trained in general contractor management - New and specific contractor management training commenced during 2015 - New procurement contract with NHS 	3	4	12	<ul style="list-style-type: none"> - Continue the roll out of the new training on contract management by the Corporate H&S team - Develop a Contracts Register and commence additional procurement training with links to contractor management 	3	4	12	Ongoing	PPP Client Officer
CR11	Key Partnerships (e.g. PPP, Veolia) - to ensure that partnerships are used to support the delivery of the Council's priorities and that they are delivered to the specified standard.	<ul style="list-style-type: none"> - Partnerships not delivered as promised - Breakdown in a key partnership relationship 	<ul style="list-style-type: none"> - Reputation damage - Loss of trust - Service disruption 	<ul style="list-style-type: none"> - Strategic board in place for PPP - Client function and supporting key Pis - Focus on HYR and ICT 	3	4	12	<ul style="list-style-type: none"> - Negotiations taking place with key partners around contract delivery - Begin preparations for the Waste Collection re-tender in 2018 - SLT / CMT to develop relationships with key strategic partners 	3	4	12	Ongoing	CCC Manager Commercial Services Manager



Corporate Risk Register

REF	RISK DESCRIPTION (HEADLINE)	RISK CAUSE	RISK EFFECT	EXISTING CONTROLS IN PLACE TO MITIGATE THE RISK	CURRENT RISK RATING			FURTHER ACTION REQUIRED	TARGET RISK RATING			TARGET COMPLETION DATE(S)	RISK LEAD
					LIKELIHOOD	IMPACT	RISK RATING (LxI)		LIKELIHOOD	IMPACT	RISK RATING (LxI)		
CR12	The provision of Social Housing - ensuring that the Council is able to support delivery of social housing and that there is a sustainable business plan for the Housing Revenue Account.	<ul style="list-style-type: none"> - Requirement to make an annual payment to Government reflecting the market value of high value housing likely to become vacant during that year and/or sell the most valuable Council housing stock as it becomes vacant. - Government controls on housing rents contrary to those agreed in self-financing statement - Requirement to charge a market or near market rent for households with an income of over £30,000 - Removal of Lifetime Tenancies for new tenants and replaced with a fixed term tenancy of between 2 to 5 years. - Introduction of a cap in the amount of rent that housing benefit will cover relevant to the LHA. 	<ul style="list-style-type: none"> - Reduced resources within the HRA business plan due to the loss of rent income and/or increased rent arrears. - Loss of stock and inability to replace the stock which is sold due to reduced resources. - Increase in Right to Buy sales - Risk of being required to repay retained Right to Buy 1-4-1 receipts to Government - Increased administrative burden in implementing new policies. 	<ul style="list-style-type: none"> - Using the Business Planning system to model the implications of possible scenarios. - Reprofiting of work / policies and procedures to achieve tenancy sustainment, deliver new policies 	3	5	15	<ul style="list-style-type: none"> - Refresh the HRA Business Plan - Re-phasing of capital investment - Increased borrowing - Use of working balance - Review the debt repayment policy - Commission a stock conditioning survey - Review of repairs and maintenance standards and lifecycles of building components / asset performance / procurement to achieve efficiencies / revised stock condition survey against these revised standards. 	3	4	12	Ongoing	Housing Mgt Team
CR13	Safeguarding Children and Vulnerable Adults - the ability to fulfill our moral and legal obligations to ensure a duty of care for children and vulnerable adults across our services and facilities.	Inadequate policies, procedures, learning and development partnership working to safeguard children and vulnerable adults living in our communities, using our services and to protect the council, its staff (including agency staff), elected members and volunteers	<ul style="list-style-type: none"> - Negative impact on the well-being of children and vulnerable adults - Reputation damage - Public expectations / reaction - Loss of Trust - Loss of Member confidence - Loss of staff morale - Critical external inspection / investigation 	<ul style="list-style-type: none"> - Safeguarding lead roles identified - Safeguarding group established to develop effective response, audit and share best practice - Strong dialogue and engagement with key partners on Derbyshire Safeguarding Board - Policies and procedures are up to date - Learning and development arrangements in place - Annual audit / self assessment - Regular internal audits 	2	4	8	-Maintaining engagement and improvement activity	2	4	8	Ongoing	Exec Director All

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For publication

Constitution Updates – Delegation Changes

MEETING: 1. Standards and Audit Committee

DATE: 1. 25th July 2018

REPORT BY: Director of Finance and Resources
Monitoring Officer

For publication

1.0 Purpose of report

- 1.1 To inform members about, to seek approval and confirmation of, updates to the Constitution.

2.0 Recommendations

- 2.1 That the Committee agrees the changes to financial thresholds and delegated complaint compensation limits at paragraph 6.0 of this report.
- 2.2 That the Committee notes the other updates to the Constitution.
- 2.3 That the current published version of Constitution be confirmed as amended by this report.
- 2.4 That the Committee notes that the updated Constitution will go before Cabinet and Council for approval.

3.0 Background

- 3.1 The Constitution is a key document, required by law, which sets out the principal powers, duties and procedures of the Council. It also sets out

to whom decision making over the Council's various functions is delegated.

- 3.2 The current form of Constitution has been in place since the early 2000s and follows a government model proposed at the time. Most council constitutions follow a similar format, though some are now moving away from it. The constitution is publicly available on the Council's website.
- 3.3 The Constitution needs to be changed and updated from time to time to ensure it reflects current practices, functions and structures and efficient working of the authority.
- 3.4 Changes to accord with the law are incorporated with periodic reviews of the parts of the constitution and logical changes resulting from restructures usually follow automatically. Minor corrections/changes and clarified/simplified drafting are also carried out from time to time by the Monitoring Officer.
- 3.5 While Full Council will consider the main changes, the less significant changes requiring approval are delegated to this Committee. Various consequential amendments may need to be made to other parts of the Constitution, numbering etc to ensure consistency and reflect these changes and these are the responsibility of the Monitoring Officer.
- 3.6 This Committee last considered and approved changes to the Constitution in November 2017 and then in February 2018. This report is for the Committee to note various recent changes, approve others and to confirm the current version of the Constitution.
- 3.7 It is also intended to take the complete Constitution to Cabinet and full Council for confirmation.

4.0 Rolling Review

- 4.1 In addition to routine updates and changes, since 2017 the Monitoring Officer has been carrying out a formal rolling review of each part of the constitution. This is to help updates to be proactive rather than just reactive. Some parts have been reviewed and others are pending.

5.0 Schedule of Changes

- 5.1 Since 2011 a schedule of changes is published with the Constitution and updated regularly.
- 5.2 Since this Committee last considered the Constitution in April, reviews and updates were as follows:

Part 4 : Clarified Access to Information urgency provisions
 Clarified Financial Regulations officer spending delegations
 Updated EU procurement thresholds

- 5.3 The published version of the Constitution is on the Council's website at <https://www.chesterfield.gov.uk/your-council/the-council/the-constitution.aspx>

6.0 Updates needing approval

Financial Thresholds

- 6.1 The Director of Finance and Resources has reviewed various financial thresholds contained in the Constitution, particularly in the Financial Regulations in Part 4.
- 6.2 He recommends the following changes in order to comply with best practice, for the effective working of the Council:

Finance Rule 15: Ordering and paying for goods and services

Authoriser	Current Limit	Proposed Limit
SLT	Above £25,000	Above £100,000
CMT/SLT	Up to £25,000	Up to £100,000
Budget Holders	Up to £2,500	Up to £2,500

Finance Rule 19(d): Writing off debt (e.g. business rates, council tax etc)

<i>Current</i> Amount for any one debtor in any one year	<i>Proposed</i> Amount for any one debtor in any one year	Approved By
Up to £2,000	Up to £2,000	Customer Services Manager (Arvato) in consultation with the relevant Assistant Director/Service Manager
Between £2,000 and £5,000	Between £2,000 and £20,000	Chief Finance Officer and Customer Services Manager (Arvato) in consultation with the relevant Assistant Director/Service Manager
Between £5,000 and £50,000	Between £20,000 and £50,000	Executive Member (meeting with the Chief Finance Officer)
Above £50,000	Above £50,000	Cabinet

Delegated compensation levels

- 6.3 Part 2 of the Constitution includes, at Article 9.4, the role and function of the Standards and Audit Committee.
- 6.4 The non-executive functions delegated to the committee by local choice include, at Paragraph (f) – page 32 - the function relating to complaints and Ombudsman matters. The committee has delegated authority to approve payments in cases of maladministration leading to adverse effect on any person as a result of the authority's action or failure to act.
- 6.4 Paragraph (f) also contains a delegation to each Assistant Director (S011D) to make a compensation payment or benefit of up to £500 on complaints where the Council accepts fault.
- 6.5 The delegation has been set at this level for many years, and in the Monitoring Officer's and Director of Finance and Resources view should be reviewed. While payments above this level are not made often, some latitude is needed so that settlement can be reached without delay and to allow some flexibility to officers, in the light of current compensation levels expected by the Ombudsman.

6.6 Accordingly, it is suggested that this delegated limit be increased to £2000, plus any additional sum, if appropriate, to reimburse the complainant for any reasonable expense they have been put to as the result of the Council's fault.

7.0 Human Resources/people management implications

7.1 The changes enable more efficient working of the authority, reflecting the current structure and best practice. Officers and members are able to operate within a clear framework and delegated limits and are already working within approved budgets.

8.0 Financial implications

8.1 The report proposes changes which will lead to greater efficiency and cost effectiveness in decision making.

9.0 Legal and data protection implications

9.1 The Council must have a Constitution and this must be updated periodically to reflect current practices and decision making structures: it is a living document. Some changes flow from, eg changes in legislation or decisions made by the council or restructured posts replacing previous posts. Other changes need formal approval.

9.2 While the main Constitution changes are authorised by full Council, Council has previously delegated authority to Standards and Audit Committee to approve more routine Constitution changes.

10.0 Risk management

10.1 This report concerns updates to the Constitution to enable efficient and legal operation of Council decision making, to strengthen internal audit procedures and to introduce more flexible and efficient procedures for signing Council documents.

Description of risk	Impact	Likelihood	Mitigating Action	Resulting Impact	Resulting Likelihood
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Constitution not reflect current requirement of the Council	H	M	Regular review of all parts of the Constitution and appropriate proactive and reactive amendment.	L	L
Financial limits are not adjusted periodically causing delays to decisions, contracts and complaints	H	M	Regular review of financial thresholds to ensure effective working of the organisation	L	L

11.0 Alternative options and reasons for rejection

11.1 **Do not change the Constitution:** The Constitution must be updated from time to time to reflect the current structure and legal functions and appropriate procedures. The Constitution is required by law and must be reviewed on a rolling basis. An alternative is not to adjust financial thresholds, and rely on current limits and thresholds.

12.0 Recommendations

12.1 That the Committee agrees the changes to financial thresholds and delegated complaint compensation limits at paragraph 6.0 of this report.

12.2 That the Committee notes the other updates to the Constitution.

12.3 That the published version of Constitution be confirmed as amended by this report.

12.4 Notes that the updated Constitution will go before Cabinet and Council for approval.

13.0 Reason for recommendations

13.1 To ensure effective and efficient operation of the Council.

Document information

Report author		Contact number/email
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Background documents		
The Council's Constitution – on Council website https://www.chesterfield.gov.uk/your-council/the-council/the-constitution.aspx		
<i>This must be made available to the public for up to 4 years.</i>		
Appendices to the report		
	none	

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For publication

Politically Restricted Posts

Meeting: (1) Standards and Audit Committee
(2) Cabinet Member for Governance

Date: (1) 25 July 2018
(2) TBD

Cabinet portfolio: Governance

Report by: Monitoring Officer

For publication

1.0 Purpose of Report

- 1.1 To inform members about the current review of politically restricted posts and to confirm amendments to the constitution to take account of changes in the law relating to relevant appeals.

2.0 Recommendations

- 2.1 To note the report.
- 2.2 To confirm the amendments to the Constitution referred to in this report.

3.0 Background

- 3.1 Local authorities have a legal duty to maintain a list of politically restricted posts. These are officers who by the nature of their responsibilities should not be politically active. Some restricted posts are set by law and others by the nature of responsibilities. The law requiring a further class of restriction, based on salary level, was revoked some years ago.
- 3.2 The duty is set out in the Local Government and Housing Act 1989, last amended by the Localism Act 2011.
- 3.3 It is some years since the Council has reviewed its politically restricted posts, though some newer appointments have been made on the basis that they are politically restricted and this is referred to in the appointee's contract. A review is currently underway and Human Resources is discussing a draft list with Assistant Directors.
- 3.4 Prior to 2011 this committee had a role in considering applications for exemption by officers whose posts were identified as politically restricted, but only ever dealt with one application. Since the Localism Act 2011 and abolition of the legal requirement to have a standards committee this role is now vested in the Chief Executive.

4.0 Politically Restricted Posts

Political Restriction

- 4.1 Under the Local Government and Housing Act 1989 (as amended) various local authority posts are politically restricted, with additional controls imposed by regulation. Under Part 3 of the Constitution the responsibility of maintaining the list of politically restricted posts is delegated to the Local Government and Regulatory Law Manager.

Statutory Restriction

4.2 Some posts are politically restricted by law. These are:

- a) Head of Paid Service
- b) Chief Officers - a person who reports directly to (a) or direct to the authority - at the Council this includes the Directors
- c) Statutory Chief Officers - at the Council this means the Section 151 officer (Director of Finance and Resources)
- d) Deputy Chief Officers – a person who reports directly to (b) or (c) - at the Council this includes the Assistant Directors and also other officers including those that report direct to the Head of Finance.
- e) The Monitoring Officer
- f) Political Assistants appointed under section 9 of the 1989 Act (none at Chesterfield Borough Council)

Political Restriction by Duties of Post

4.3 Other posts will become politically restricted if the posts have duties set out in the Act. Under Section 2(3)(a) of the 1988 Act a post will be politically restricted if duties appear to the authority to consist of or involve:

- Giving advice on a regular basis to the authority, a committee, sub- committee, the executive or executive member
- Speaking regularly to the press

There are some exceptions to this rule, where specified in regulations by the Secretary of State (not relevant to this report).

Political Restriction by Salary Level

- 4.4 Formerly the level of a postholder's salary was also a ground for political restriction. All postholders paid at SCP 44 and above were automatically politically restricted. The majority of politically restricted posts in the Council were restricted by virtue of their salary, rather than because of the duties attached to the particular post. This trigger was abolished by the Local Democracy, Economic Development and Construction Act 2009 on 12th January 2010.

The effect of Political Restriction

- 4.5 A person holding a politically restricted post is disqualified from becoming or remaining a member of a local authority (excluding a parish council) or of the House of Commons.
- 4.6 In addition, the terms and conditions of employment of persons holding a politically restricted post are deemed to incorporate various other restrictions, including prohibition from:
- announcing, or causing or permitting the announcement of the employee's candidature for election to the House of Commons, the European Parliament or a local authority
 - speaking to the public or publishing written work with the apparent intention of affecting public support for a political party
 - acting as an election agent
 - canvassing on behalf of a political party
 - being an officer or member of a committee of a political party or branch of a political party if the duties would require the employee to participate in the general management of the party or branch or act on behalf of the party or branch with persons outside the party

- 4.7 There is no restriction on being a member of a political party. Irrespective of whether or not politically restricted an employee cannot be an elected member of his or her own employing authority.

Role of Standards and Audit Committee

- 4.8 Under Article 9 of Part 2 of the Constitution, Standards Committee had various responsibilities:
- To consider applications from local authority employees for exemption from political restriction in respect of their posts.
 - Where appropriate, to issue directions requiring the inclusion of a post in the list of politically restricted posts
 - To give general advice on the application of criteria for designation of a politically restricted post.
- 4.9 Since the Localism Act 2011 and the abolition of the legal requirement of local authorities to have standards committees, a new Section 3A inserted in the 1989 Act vested these roles in the authority's Chief Executive. The Constitution has been amended accordingly. Prior to then this committee only considered an application for exemption on one occasion.

5.0 Recommendations

- 5.1 To note the report.
- 5.2 To confirm the amendments to the Constitution referred to in this report.

6.0 Reason for Recommendations

- 6.1 To inform members of the current review of, and law related to, politically restricted posts.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	

Document information

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For publication

Annual Self-Assessment of the Standards and Audit Committee / CIPFA's Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition

Meeting: Standards and Audit Committee

Date: 25th July 2018

Cabinet portfolio: Governance

Report by: Internal Audit Consortium Manager

For publication

1.0 Purpose of report

- 1.1 To present for members' information CIPFA's "Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition" and to enable the Committee to undertake a self-assessment.

2.0 Recommendations

- 2.1 That the report be noted.
- 2.2 That any actions identified during the self-assessment of the Audit Committee are documented and brought back to the next Committee meeting in the form of an action plan.

3.0 Report details

3.1 CIPFA have recently produced new guidance in respect of Audit Committees (Appendix 1). The publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and represents best practice for audit committees throughout the UK. This guidance replaces the previous 2013 guidance.

3.2 The guidance contains a number of chapters:-

- Introduction
- CIPFA's Position Statement : Audit Committees in Local Authorities and Police
- The purpose of Audit Committees
- The core functions of an Audit Committee
- Possible wider functions of an Audit Committee
- Independence and Accountability
- Membership and effectiveness

3.3 At Page 73 Appendix D of CIPFA'S publication there is a self-assessment of good practice. This provides a high level review that incorporates the key principles set out in CIPFA's position statement and publication. Where an Audit Committee has a high degree of performance against the good practice principles, then it is an indicator that the Committee is soundly based and has in place a knowledgeable membership. These are essential factors in developing an effective audit committee.

3.4 In May 2017 the Standards and Audit Committee undertook their first self-assessment. The resulting action plan from this assessment can be seen at Appendix 2 along with the progress made to date.

- 3.5 It is now proposed that the self-assessment of good practice in the new guidance is completed. Appendix 3 is a replication of the new self -assessment of good practice and is ready to be completed. Most of the questions are the same as those from the 2013 self-assessment however there have been a few additions.

4.0 Alternative options and reasons for rejection

- 4.1 The report is for information.

5.0 Recommendations

- 5.1 That the report be noted.
- 5.2 That any actions identified during the self-assessment of the Audit Committee are documented and brought back to the next Committee meeting in the form of an action plan.

6.0 Reasons for recommendations

- 6.1 To inform Members of CIPFA'S new publication "Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition" .
- 6.2 To enable The Standards and Audit Committee to undertake a self-assessment.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for money services.

Document information

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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.		
Appendices to the report		
Appendix 1	Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition	
Appendix 2	Standards and Audit Committee May 2017 self-assessment action plan update	
Appendix 3	Audit Committee self-assessment July 2018	

audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition



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audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition

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Thanks also to the audit committee members who have attended our training courses for providing their insight into the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.

A handwritten signature in black ink that reads "Diana Melville". The script is cursive and fluid, with the first name "Diana" and last name "Melville" clearly distinguishable.

Diana Melville

Governance Advisor, CIPFA

Contents

CHAPTER 1: INTRODUCTION.....	1
CHAPTER 2: CIPFA'S POSITION STATEMENT: AUDIT COMMITTEES IN LOCAL AUTHORITIES AND POLICE .	3
CHAPTER 3: THE PURPOSE OF AUDIT COMMITTEES	7
CHAPTER 4: THE CORE FUNCTIONS OF AN AUDIT COMMITTEE	11
INTRODUCTION.....	11
GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT	12
INTERNAL AUDIT	13
RISK MANAGEMENT	16
ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING.....	17
VALUE FOR MONEY AND BEST VALUE	17
COUNTERING FRAUD AND CORRUPTION	18
EXTERNAL AUDIT.....	19
FINANCIAL REPORTING	22
PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS	23
GOVERNANCE AND ETHICAL VALUES.....	24
CHAPTER 5: POSSIBLE WIDER FUNCTIONS OF AN AUDIT COMMITTEE.....	27
CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES.....	27
ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES	28
TREASURY MANAGEMENT	28
CHAPTER 6: INDEPENDENCE AND ACCOUNTABILITY	31
INTRODUCTION.....	32
SECTOR AND DEVOLVED GOVERNMENT GUIDANCE	32
STRUCTURE AND INDEPENDENCE.....	33
SHARED AUDIT COMMITTEES	34
AUDIT COMMITTEES IN PARTNERSHIP	34
DECISION-MAKING POWERS AND DELEGATIONS.....	34
ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS	35
ACCOUNTABILITY	37
CHAPTER 7: MEMBERSHIP AND EFFECTIVENESS	39
COMPOSITION AND OPERATION OF THE COMMITTEE	39
KNOWLEDGE AND EXPERIENCE	42
DEVELOPING AUDIT COMMITTEE EFFECTIVENESS.....	43
COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES	44
APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS	47
APPENDIX A: SECTOR AND DEVOLVED GOVERNMENT GUIDANCE	49
PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES.....	50

PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT
MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE.....53

APPENDIX B: SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES AND POLICE 59

INTRODUCTION.....59

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES59

SUGGESTED TERMS OF REFERENCE – POLICE.....62

APPENDIX C: AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK..... 65

CORE AREAS OF KNOWLEDGE65

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE69

CORE SKILLS70

APPENDIX D: SELF-ASSESSMENT OF GOOD PRACTICE 73

APPENDIX E:EVALUATING THE EFFECTIVENESS OF THE AUDIT COMMITTEE 77

CHAPTER 1

Introduction

This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, and represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

This publication incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police* (2018) ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement. Throughout the Position Statement the terms 'authority' and 'authorities' are used to include police and crime commissioners (PCCs) and chief constables as well as local authorities and fire and rescue authorities.

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the [Accounts and Audit \(England\) Regulations 2015](#) state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the [Local Government Act 1972](#) requires every local authority to "make arrangements for the proper administration of its financial affairs".

Regardless of the specific legislative or regulatory framework, the chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit,

helping to ensure that it is adequate and effective. Both these elements are now enshrined in the [Public Sector Internal Audit Standards](#) (PSIAS) and the supporting [Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards](#) (LGAN).

There have been a number of significant developments in governance and audit practice since 2013 which have emphasised the importance of the audit committee. Key developments include:

- the new [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)
- updates to the PSIAS in 2016 and 2017
- the [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014).

Legislation has also had an impact, in particular the [Local Audit and Accountability Act 2014](#), which introduced changes to the appointment of external auditors. The new combined authorities must also establish an audit committee in accordance with statutory regulations. For police bodies, the operation of joint audit committees supporting both the PCC and the chief constable have now completed a full term and further changes are on the horizon.

The [Policing and Crime Act 2017](#) enables a PCC (following local consultation and approval from the secretary of state) to take on the governance of its local fire and rescue service(s) to become the fire and rescue authority, known as a police and crime commissioner fire and rescue authority (PCC FRA). This would be a separate legal entity from the PCC.

The PCC FRA would be a corporation sole and a fire and rescue authority. There would therefore be the need for appropriate audit committee arrangements. Guidance on this is expected to be included in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018). The aim of this publication is to support fire and rescue authority and police audit committees in performing effectively.

Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. For police audit committees, there is a requirement to have independent members on the audit committee and Welsh authorities and English combined authorities must also include at least one independent member. CIPFA considers that this is in line with good practice. In establishing their audit committees, other authorities should recognise the need to demonstrate good governance principles and independence from the executive and other political allegiances.

This guidance is applicable to all principal local authorities and fire and rescue authorities in the UK, and to the independent audit committees established to support PCCs and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
 - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process

- promote the effective use of internal audit within the assurance framework
- consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
- monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
- consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
- support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

5 An audit committee can also support its authority by undertaking a wider role in other areas including:

- considering governance, risk or control matters at the request of other committees or statutory officers
- working with local standards and ethics committees to support ethical values
- reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
- providing oversight of other public reports, such as the annual report.

6 Good audit committees are characterised by:

- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
- a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
- a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
- unbiased attitudes – treating auditors, the executive and management fairly
- the ability to challenge the executive and senior managers when required.

- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - be able to meet privately and separately with the external auditor and with the head of internal audit
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

CHAPTER 3

The purpose of audit committees

Extract from the Position Statement

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The overall aim of good governance is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Governance is defined in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) as follows:

- *Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*
- *To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.*

Good governance is ultimately the responsibility of the governing body, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the CFO and the monitoring officer. In local government, the governing body is the full council or authority and both the PCC and chief constable are responsible as a corporation sole.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; the police audit committee must remain an advisory body to the PCC and the chief constable. New policing arrangements were established by the [Police Reform and Social Responsibility Act 2011](#). Guidance for police audit committees is contained in the [Financial](#)

Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018).

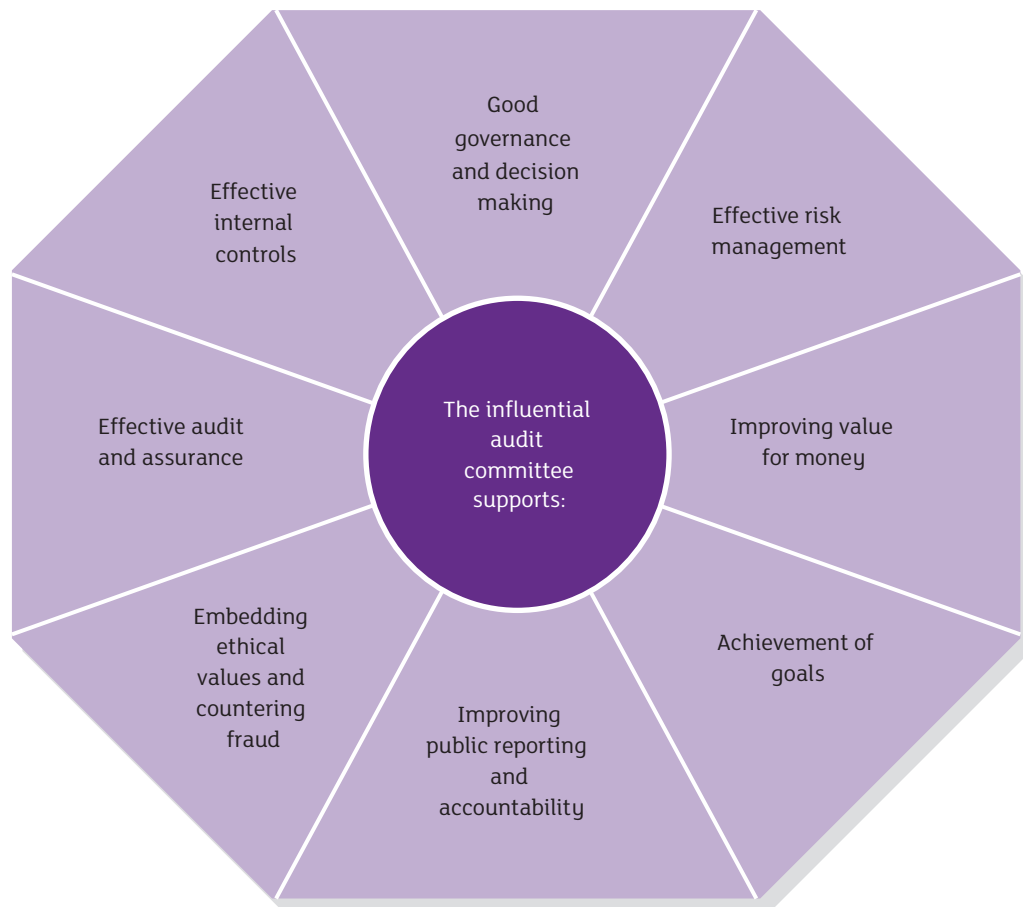
As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging influence, an audit committee will need commitment and energy from the membership together with support and openness from the authority.

The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community.

The influence that an effective audit committee is able to have in these areas is set out in Figure 3.1 below.

Figure 3.1: The influential audit committee



Source: Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards. It is possible for the functions of an audit committee to be undertaken by other bodies, but a dedicated resource is likely to be more knowledgeable and effective, having more time to focus on these important issues.

The core functions of an audit committee

Extract from the Position Statement

- 4 The core functions of an audit committee are to:
- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

INTRODUCTION

The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance.

Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is included in Appendix B. The remainder of this chapter provides further background and explanation for the audit committee's core functions.

GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

Audit committees provide essential support for the approval of the annual governance statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.

[Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) ('the Framework') sets the standard for governance in UK local government bodies. The Framework is supported by guidance notes for each sector as follows:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities](#) (CIPFA/Solace, 2016).
- [Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales](#) (CIPFA, 2016).

The Framework is principles based and informs the approach to good governance adopted by PCCs and chief constables as well as local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles.

Legislation requires local authorities, fire and rescue authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control (see Appendix A for details of the legislative requirements). The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive of an authority and by the PCC and chief constable. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGS of both the PCC and the chief constable.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For example, English local authorities under the [Accounts and Audit Regulations 2015](#) must approve and publish the AGS by 31 July at the latest for the financial year starting 2017 and thereafter. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on

assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning)
- over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in Chapter 6.

INTERNAL AUDIT

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS and the LGAN. All principal local authorities and other relevant bodies subject to the [Accounts and Audit Regulations 2015](#), the [Accounts and Audit \(Wales\) Regulations 2014](#), the [Local Authority Accounts \(Scotland\) Regulations 2014](#) and the [Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#) must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the Mission of Internal Audit, Code of Ethics, Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements.

It is a requirement of the PSIAS that the terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set

out in the internal audit charter, which is the formal document that defines internal audit's purpose, authority and responsibility.

The role of the audit committee in relation to internal audit is to:

1. oversee its independence, objectivity, performance and professionalism
2. support the effectiveness of the internal audit process
3. promote the effective use of internal audit within the assurance framework.

Within police bodies this is an advisory role for the audit committee.

The specific activities that these three objectives lead to are considered below.

Oversee independence, objectivity, performance and professionalism

The following activities are the functional reporting arrangements set out in the PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role to:

- review or approve the following:
 - the internal audit charter
 - the risk-based internal audit plan
 - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit or the award of a contract for internal audit services
- make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
 - a summary of the work on which internal audit has based the opinion
 - a statement on conformance with the PSIAS and the LGAN
 - the results of the quality assurance and improvement programme, including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

The head of internal audit or chief internal auditor (referred to in the PSIAS and the LGAN as 'chief audit executive') must have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the quality assurance and improvement programme (QAIP) at least once every five years.

Support the effectiveness of the internal audit process

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities form a core part of this:

- receiving updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- receiving communications from the head of internal audit on the internal audit activity's performance relative to its plan and other matters
- giving approval to internal audit for any significant additional consulting services not already included in the audit plan, prior to internal audit accepting an engagement
- receiving reports on instances where the internal audit function does not conform to the PSIAS or LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS
- overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates
- receiving regular reports on the results of the QAIP, including the external assessment.

Promote the effective use of internal audit within the assurance framework

The audit committee should make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- when considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

Those audit committees that operate under the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014 must conduct a review of the effectiveness of their internal audit annually (Appendix A includes details of the relevant regulations). The audit committee should take into account internal audit's QAIP when conducting such a review.

The [CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations](#) (CIPFA, 2010 – due to be updated in 2018) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

RISK MANAGEMENT

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements. Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

The role of the audit committee in relation to risk management covers three major areas:

- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
 - overseeing the authority's risk management policy and strategy and their implementation in practice
 - overseeing the integration of risk management into the governance and decision-making processes of the organisation
 - ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
 - reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency
 - reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
 - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
 - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
 - overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
 - reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans

- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management. The audit committee should support initiatives to identify and evaluate assurance in this way.

Whether or not there is a formally set-down assurance framework, the audit committee has a responsibility to understand what assurance is available to support the AGS and to enable the committee to meet its terms of reference. The committee should be seeking to ensure that assurance is planned and delivered with the following objectives in mind:

- clarity of what assurance is required
- clear allocation of responsibility for providing assurance
- avoiding duplication, bearing in mind the differing objectives of assurance activities
- improving the efficiency and cost effectiveness of assurance
- obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Having a clear assurance framework in place will assist the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements. In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

VALUE FOR MONEY AND BEST VALUE

Making best use of resources is a key objective for all local authorities and it is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is “delivering defined outcomes on a sustainable basis within the resources that will be available”.

Under Sections 2, 3 and 35 of the [Police Reform and Social Responsibility Act 2011](#), the chief constable has statutory responsibility to secure value for money (VfM) and the PCC to hold the chief constable to account for this duty. The audit committee’s role is to support both the PCC and chief constable to fulfil their responsibilities through the assurance process.

Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance

against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.

The role of the audit committee is most likely to focus on whether the authority's overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.

One specific area of activity for the committee will be consideration of the external auditor's wider work as set out in the codes of audit practice and other guidance adopted by national audit bodies as follows:

- **England** – statutory value for money conclusion as defined by the National Audit Office
- **Scotland** – periodic reviews of best value
- **Wales** – Wales Audit Office annual improvement reports
- **Northern Ireland** – review of arrangements for the use of resources.

Where the external auditor has issued a qualified conclusion on VfM, the audit committee should ensure there is a robust action plan to address the issues raised. In addition, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

COUNTERING FRAUD AND CORRUPTION

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.

The audit committee should have oversight of the authority's counter fraud strategy, assessing whether it meets recommended practice and governance standards and complies with legislation such as the [Bribery Act 2010](#).

The [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014) ('the Code') sets out the counter fraud standards for public sector organisations; sector-specific strategies such as [Fighting Fraud and Corruption Locally](#) should also be considered, along with the [CIPFA Fraud and Corruption Tracker](#) (CFaCT) and [Integrity Matters](#) (HMIC, 2015). The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.

Oversight of counter fraud plans, resources and their effectiveness are key areas for obtaining assurance. Specific actions should include:

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community

- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

The CIPFA guidance on the AGS included in the Framework recommends that the adequacy of counter fraud arrangements are evaluated and reported on in the AGS with reference to the Code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice. The audit committee may also refer to the Internal Audit Standards Advisory Board's guidance [Internal Audit's Role in Counter Fraud](#) (2017), which sets out internal audit's responsibility to provide assurance to the organisation on how it manages fraud risk.

EXTERNAL AUDIT

Appointment of auditors

Audit committees have a role to play in relation to the appointment of external auditors. This role varies between England, Scotland, Wales and Northern Ireland, primarily due to the change in appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the [Local Audit and Accountability Act 2014](#).

In Scotland, Wales and Northern Ireland, national audit agencies are responsible for the audits of local bodies. In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act. For further information on auditor panels and the role of the audit committee, see [Guide to Auditor Panels](#) (CIPFA, 2015).

The audit committee's role in appointment is generally to express an opinion on the selection and rotation of the external auditor through whichever method is applicable for the organisation. The audit committee's objective is to support auditor independence and effective arrangements and relationships with the auditors.

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee is able to operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

Monitoring the external audit process

The audit committee's role in relation to the external audit process has three principal aspects:

1. providing assurance that the external auditor team maintains independence following its appointment
2. receiving and considering the work of external audit
3. supporting the quality and effectiveness of the external audit process.

Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process. For this reason, there is extensive [guidance](#) from the Financial Reporting Council (FRC) to external auditors on the need to safeguard independence and objectivity. These rules apply to all auditors across all sectors. In addition, the national audit bodies issue guidance to auditors on safeguarding integrity, objectivity and independence. It is an important role for an audit committee to help guard against threats to independence and to satisfy itself that the external auditor's independence is safeguarded. The critical issue of independence will be considered when the external auditor is appointed but the audit committee's role will be to monitor on an annual basis or more often when required.

Each year the external auditor will disclose to the committee an assessment of whether it is independent. This disclosure should include any significant facts that could impact, or be seen to impact, on independence and objectivity, together with any safeguards put in place. Usually this disclosure is included in the audit plan. The audit committee should use this opportunity to discuss with the external auditor their assessment of threats to independence and any safeguards.

Understanding the potential threats to external independence

Self-interest threat

Where there are or perceived to be financial or other interests that could impact on the actions of the external auditor. The potential fees from provision of non-audit or additional services to the audited body could fall within this category.

Self-review threat

Where the audit could include review of work performed, services or advice provided by the same firm or team.

Management threat

Where the auditor has become involved in or associated with decision making of the audited body.

Advocacy threat

Where the auditor has taken on an advocacy role for the audited body or supports the management in an adversarial or promotional context.

Familiarity (or trust) threat

Where familiarity or close personal relationships mean that the external auditor is insufficiently questioning or accepting in forming audit judgements.

Intimidation threat

When the conduct of the external auditor is influenced by fear or threats by individuals in the audited body.

Full details of the threats are set out in the [Revised Ethical Standard 2016](#) (FRC, 2016).

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England) or from audit quality reviews by the FRC. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

Receiving and considering the work of external audit

The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work. Where external audit make recommendations, the audit committee should discuss the action to be taken with the appropriate managers and monitor the agreed action plan. The committee should contribute to the authority's response to the annual audit letter.

Supporting the quality and effectiveness of the external audit process

The audit committee should support the quality and effectiveness of the external audit process through:

- understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- considering the effectiveness of the external audit process, including:
 - whether the external auditor has a good understanding of the authority
 - how the external auditor has responded to areas of audit risk
 - actions taken to safeguard independence and objectivity
 - feedback from key people such as the responsible financial officer and the head of internal audit
- reporting to the full council, or the PCC, or the chief constable or other body as appropriate on the results of its considerations.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit, for example, the quality reports from PSAA and the FRC.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Inspection reports

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

FINANCIAL REPORTING

Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC). The responsible financial officer must sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. For English authorities and policing bodies, the latest date by which the statements must be signed off is likely to be 31 May, as the 30 working day period for the exercise of public rights must include the first ten days in June.

Under the current regulations, Scottish, Welsh and Northern Irish authorities must all ensure that the financial statements are signed off by the CFO by 30 June. The [Accounts and Audit \(Wales\) \(Amendment\) Regulations 2018](#) require preparation and publication to be completed to an earlier timetable with effect from years ending 31 March 2019 onwards. Authorities will formally approve the financial statements after the completion of the external audit.

The date by which the statements must be published is set down by government regulations. For 2017/18 onwards, the latest date for publication is 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September and Northern Irish authorities must

publish by 31 October. CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit.

Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
- reviewing whether the narrative report is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, eg provisions or reserves
- seeking assurances that preparations are in place to facilitate the external audit.

[Understanding Local Authority Financial Statements](#) (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises.

Authorities may also be the accountable body for local enterprise partnerships (LEPs). PCCs may be considering options for collaboration with other relevant emergency services under the [Policing and Crime Act 2017](#). Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek

assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.

The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered. Where an organisation of which the authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body in order to support the CFO.

In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter 6 considers the implications of partnerships for audit committee independence and accountability.

GOVERNANCE AND ETHICAL VALUES

Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This is at the heart of Principle A of the Framework:

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

With its core role in supporting good governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:

Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored.

Source: Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.

Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the [Public Interest Disclosure Act 1998](#). As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.

Possible wider functions of an audit committee

Extract from the Position Statement

- 5** An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

Occasionally the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:

- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
- providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role set out in the Position Statement – advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

The audit committee's primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place, particularly in support of the AGS. Under the [Localism Act 2011](#), English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. Occasionally the committee takes on a wider role, in the place of other committees. Specifically, there should be regard for the role and responsibilities of a standards committee, where there is one.

Where the local authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Where the audit committee takes on the responsibilities of the standards committee, there should be a clear distinction between the two roles and responsibilities in the terms of reference and meeting agendas.

Ethics in policing has received a lot of attention in the last few years with a number of reviews and new standards, including:

- the [Code of Ethics](#) (College of Policing, 2014)
- [Tone from the Top: Leadership, Ethics and Accountability in Policing](#) (Committee on Standards in Public Life, 2015)
- [Integrity Matters](#) (HMIC, 2016).

The establishment of an ethics committee to take the lead on this important area and to review and monitor practice is now regarded as best practice. In some policing areas these are separate committees, but in some areas the audit committees have taken on this responsibility.

There is no specific guidance on the operation of the ethics committee, but it is important to distinguish between the roles of the two committees. For the audit committee's governance responsibilities, it is appropriate for the committee to have an understanding of any current ethical risks and any initiatives to improve ethical behaviour within the force or PCC's office.

The audit committee should be satisfied that there are appropriate arrangements in place to support the committee's overview of governance and the AGS. The ethics committee's role will be to help establish and monitor those arrangements in practice, ensuring that the PCC and chief constable fulfill their statutory obligations. Where the audit committee is taking on wider ethics committee roles, then it should be clear within its terms of reference and meeting agendas how it separates the two roles.

TREASURY MANAGEMENT

[Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate another committee instead. CIPFA is aware, however,

that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance. The following clause from the Code should have been adopted by all local authorities and the appropriate body responsible for providing scrutiny nominated:

This organisation nominates (name of responsible body/committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Code, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Code clauses as these are executive and decision-making roles rather than a scrutiny role.

Where the committee is undertaking scrutiny then this is likely to involve the following actions:

- developing greater awareness and understanding of treasury matters among the committee members
- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Code so the purpose of receiving regular reports should be clear
- reviewing the treasury risk profile and adequacy of treasury risk management processes
- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.

CHAPTER 6

Independence and accountability

Extract from the Position Statement

- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
- act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 7** To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

INTRODUCTION

CIPFA is keen that each local authority or police body adopts an audit committee model that achieves its purpose and functions successfully. CIPFA's recommended best practice is intended to support the development of effective arrangements and should not be regarded merely as a compliance checklist.

For a local authority, in CIPFA's view, it is best practice for the audit committee to report directly to council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. In the police sector, both the PCC and chief constable are separate corporations sole and so each will fulfil the role of 'those charged with governance'.

In establishing the audit committee within the governance structure of the authority, three key elements should be considered:

1. any statutory guidance applicable to the sector
2. independence from the executive and political allegiances
3. a practical assessment of 'what works' in the local context.

Each of these elements is considered in more detail in the following sections.

SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A. While there is broad similarity in the guidance across the UK, there are differences as a result of specific statutory guidance and regulations including:

- statutory requirements for audit committees in Wales
- statutory requirements for combined authorities to establish an audit committee
- statutory guidance underpinning the operation of police audit committees in England and Wales.

Local authorities in Wales have a clear statutory role established by the [Local Government \(Wales\) Measure 2011](#). The Welsh Government has provided [statutory guidance](#) on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance. The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to establish an audit committee of which at least one member must be appointed as an independent member. The Home Office's [Financial Management Code of Practice for the Police Forces of England and Wales](#) (2013 – due to be updated in 2018) (the 'FMCP') requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole.

The [Policing and Crime Act 2017](#) enables a PCC in England (following local consultation and approval from the secretary of state) to take on the governance of their local fire and rescue service(s) to become a PCC FRA. The 2018 edition of the FMCP is likely to include guidance concerning audit committees in this event.

Other regulations include the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

Impact of other legislation

The standards committee's role has been affected by the [Localism Act 2011](#) in England, and some authorities have chosen to transfer responsibility for looking at ethical governance matters to the audit committee, while retaining a standards panel to oversee investigations.

Other relevant recommendations

The [Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2015](#), a report produced by the Chief Local Government Auditor of the Northern Ireland Audit Office, commented that in a small number of councils the audit committee was not operating as a full committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

STRUCTURE AND INDEPENDENCE

Local authorities

For local authorities, stand-alone audit committees reporting to full council are the most common arrangement in the UK. The [CIPFA Survey on Audit Committees in Local Authorities and Police 2016](#) found that, across the UK, 85% of councils had audit committees that reported to full council, leaving only 15% that reported via cabinet or other committee. The survey also showed that the number of stand-alone audit committees had declined from 58% to 47% alongside a rise in the number of joint committees. Some joint committees' responsibilities were audit and risk or audit and governance, however, others included responsibilities such as procurement or health and safety. There had also been a small rise in the number of joint audit and standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.

Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council ('those charged with governance'), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.

Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.

Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.

However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter 7 includes a section on the composition of the audit committee.

Combined authorities

The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to have an audit committee, but there are no requirements about where the committee fits into the overall governance structure of the authority. If the combined authority brings together the functions of the PCC with the local authority functions, and in time those of the fire authority as well, then it might be expected that there would be a single audit committee.

Police

Police audit committees are recommended by the FMCP to be joint committees, reporting both to the PCC and the chief constable. To date, all police audit committees operate in this way.

SHARED AUDIT COMMITTEES

Where authorities or policing bodies have entered into significant levels of partnership, a shared audit committee may be a practical way forward. This will be particularly appropriate where there is a shared management team and single functions for finance, audit and risk. In establishing the committee, consideration will need to be given to achieving a balance of representation between the partners and how the chair is to be selected.

AUDIT COMMITTEES IN PARTNERSHIP

Where an authority has major areas of governance and risk shared with other public bodies in a partnership, it may be appropriate to set up formal arrangements between the respective audit committees. This could involve one audit committee being nominated to take the lead on matters relating to the partnership. Alternatively, the audit committees could nominate representatives to a shared audit committee to oversee the partnership.

DECISION-MAKING POWERS AND DELEGATIONS

All audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision making. The committee's effectiveness does not depend on the delegation of powers.

The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated

decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights outlined in Chapter 7. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.

Police audit committees in England and Wales can never be delegated decision-making or approval powers by the PCC or the chief constable.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Agenda management and frequency of meetings

The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.

Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and unproductive meetings. Equally, the audit committee should review whether the inclusion of each item on its agenda results in added value and whether some time-consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, the audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

Supporting the audit committee and key relationships

Effective administrative support for the audit committee will clearly be important as for any committee of the authority. If the committee is to take an active part in the authority's business, it should be administered as effectively as any other committee meeting. The regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

[The Role of the Chief Financial Officer in Local Government](#) (CIPFA, 2016) and the [CIPFA Statement on the Role of Chief Financial Officers in Policing](#) (2018) emphasise the importance of having an effective audit committee to support the CFO. Police audit committees will need to work with the CFO of both the PCC and the chief constable. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.

The head of internal audit should also have a good relationship with the committee and be a key point of contact. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings.

A public sector requirement within the PSIAS states:

The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

The head of internal audit's relationship with the audit committee, especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:

- chief executive or equivalent – for the AGS and other governance-related issues
- monitoring officer – for the AGS and ethical governance issues
- risk management officer – for discussions around the risk registers and risk reports
- head of counter fraud – for agenda items on fraud risks and counter fraud activity
- service senior managers – for audit, risk, or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters)
- scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Consideration should also be given to supporting the audit committee outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. This issue may be of particular importance for police audit committees where the members are not routinely involved in other meetings and do not have the same rights of access to information as do local authority councillors. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector and in other parts of the public sector. The aim of this

is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

ACCOUNTABILITY

Given its role in the governance structure and in promoting the principles of good governance, the audit committee should be clear how it supports one of the key principles: accountability. It is also important that the audit committee is, in its turn, held to account on the extent to which it has fulfilled its purpose. For an audit committee, accountability has to be considered under three aspects, each of which is considered below:

1. supporting the authority's accountability to the public and stakeholders
2. supporting accountability within the authority
3. holding the audit committee to account.

Supporting the authority's accountability to the public and stakeholders

The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.

The Home Office publishes an [Accountability System Statement for Policing and Crime Reduction](#) which identifies the formal accountability relationships of policing bodies. The statement does not identify a formal accountability role for the police audit committee, which reflects its role as an advisory body supporting the PCC and chief constable. For police audit committees, therefore, the committee provides support for accountability to the public and other stakeholders but does not directly discharge that responsibility itself.

A wider group of stakeholders, such as partner organisations or the police and crime panel, may have an interest in the work of the committee, although there is no direct accountability relationship between the panel and the audit committee. Holding open meetings and publishing agendas and minutes will support wider communication and transparency.

Supporting accountability within the authority

Through review of internal and external audit reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition, by overseeing the process of evaluating and improving governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.

The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent

CIPFA survey, this was an area that heads of internal audit identified for improvement in their audit committees.

Holding the audit committee to account

The audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council. For a police audit committee, it will be both the PCC and the chief constable. The aspects that should be specifically considered include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: council or PCC and chief constable as appropriate. In addition, publication of the report will assist other stakeholders to understand the work of the committee.

It can be difficult to ensure that those not directly involved in the work of the committee achieve an understanding of its role. Where there is a lack of understanding about the work of the committee, then the process of holding the committee to account may not operate effectively. This is considered further in Chapter 7.

Membership and effectiveness

Extract from the Position Statement

- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

COMPOSITION AND OPERATION OF THE COMMITTEE

The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.

Audit committees in Welsh local authorities and combined authorities in England and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee as follows:

- The composition of the audit committee for Welsh local authorities is subject to the [Local Government \(Wales\) Measure 2011](#), which requires local authority audit committees to have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
- Police audit committees should comprise between three and five members who are independent of the PCC and the force as required by the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018).

- Combined authorities in England are required to establish an audit committee by the [Cities and Local Government Devolution Act 2016](#). The Act and the subsequent [Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2017](#) require combined authority audit committees to include at least one independent member. The definition of independent is set out in the statutory guidance.

In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees. In the most recent [report](#), ten out of eleven local authority committees had appointed at least one independent member to the committee.

CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

In other sectors, the audit committee can be small – fewer than six members. [Guidance on Audit Committees](#) (FRC, 2016) says that an audit committee should have at least three non-executive directors. The [Audit and Risk Assurance Committee Handbook](#) (HM Treasury, 2016) states that a committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee; executive members are explicitly excluded.

In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number, however, there is a risk that creating a large committee will mean that it is harder to create the necessary focus. There is no consistency in the local government sector on the size of the committee. [CIPFA's 2016 survey](#) of audit committees found that size of the committee ranged from five to fifteen or more, although 47% had between six and eight members, with 2% having fewer and 50% having more. The survey showed that the average size of the committee had increased since CIPFA's 2011 survey.

Elected members of local authorities are members of the council and thus are part of the body charged with governance. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.

Having executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance, as outlined in Section 15 of the [Local Government and Housing Act 1989](#). Under the statutory guidance, combined authorities are required to reflect the political balance of the constituent authorities as far as is practicable. One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

These factors should be taken into account when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

Voting rights of independent members

Local authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. Where the audit committee is operating as an advisory committee under the [Local Government Act 1972](#), making recommendations rather than policy, then all members of the committee should be able to vote on that recommendation. If the council wishes to delegate decisions to the committee, for example the adoption of the financial statements, then the independent member will not be able to vote on those matters for decision. The minutes of the meeting should make clear in what capacity the committee is voting.

Recruitment process

The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be

clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked. Only the independent members for combined authorities have to satisfy specific definitions of their independence. Appropriate enquiries will need to be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance should be monitored during the term of appointment.

Independent members' appointments should be for a fixed term and be formally approved by the local authority's council or the PCC and the chief constable. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members and a register of interests should be maintained.

The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

KNOWLEDGE AND EXPERIENCE

There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire. There will also be a need for regular briefings or training to help committee members keep up to date or extend their knowledge.

Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can be used to guide members on their training needs and to evaluate the overall knowledge and skills of the committee. It can also be used when recruiting independent members. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee.

The audit committee should review risks, controls and assurances that cover the whole operation of the authority so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, will add value to the committee.

Skills and competencies

A number of skills are beneficial for the audit committee member to have. There are also specific skills that the audit committee chair will need. Many of these skills are not unique to the role of audit committee member and experience in other member or non-executive roles will have helped to build these skills. Many authorities have training and development plans for elected members, which may include similar skill or competency training opportunities. Evidence of appropriate skills and knowledge should also be sought where independent members are being recruited to the committee.

Self-assessment and training

Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the committee, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date. The authority should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes. This may require the allocation of a budget to provide appropriate support.

Role of the chair

Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Where the chair is an elected councilor, the appointment is likely to be made during the annual council and may only be for that committee cycle. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:

- an ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- an ability to bring an objective, apolitical attitude
- a core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective.

DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for delivering effectiveness.

Using the recommended practice in this publication should help the authority to achieve a good standard of performance. The evaluation at Appendix D will support an assessment against recommended practice to inform and support the audit committee. Authorities are encouraged not to regard meeting recommended practice as a tick-box activity, and they should recognise that achieving recommended practice does not mean necessarily that the committee is effective.

The selection of audit committee members, their knowledge, skills and experience are an essential component of an effective committee. Regular briefings and training are essential to keep members up to date in their role. Members will become more effective with experience so it is helpful to have some continuity of membership on the committee.

The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements.

Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. CIPFA's survey of audit committees in 2016 identified the principal barriers faced by both local authority and police audit committees. For local authorities, the top three were:

1. limited knowledge and experience of the members
2. the committee not being seen as a priority by other members
3. the intrusion of political interests.

For police audit committees, the top three barriers were:

1. the committee was not considered a priority by the PCC and chief constable
2. the committee was not considered a priority by senior management
3. poor relationships between committee members and staff.

The barriers reflect the different make-up of local authority and police committees.

Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

Areas of difficulty	Possible causes	Possible improvement options
Lack of experience and continuity of knowledge among audit committee members	<ul style="list-style-type: none"> Where turnover of membership is very frequent, it will be difficult for the committee to build up experience 	<ul style="list-style-type: none"> Enhanced level of support and training to members will be required To enhance continuity the authority could consider recruitment of independent members
Audit committee members do not feel confident in their knowledge of particular areas	<ul style="list-style-type: none"> Lack of training and support 	<ul style="list-style-type: none"> Enhanced level of support and training to members
Independent members lack knowledge of the organisation and lack connections with key managers	<ul style="list-style-type: none"> Poor induction Limited opportunities to engage with the organisation outside formal meetings 	<ul style="list-style-type: none"> Improve induction Identify appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding
Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion	<ul style="list-style-type: none"> Lack of experience or skill in managing meetings by the chair Committee members are unsure about their role Poor support from the committee secretary 	<ul style="list-style-type: none"> Training and support Develop a mentoring/coaching programme Chair seeks feedback from meeting participants Consider skills and experience in the selection of the chair Provide training and guidance to committee members on their role Improve committee support
The audit committee spends too much time on minor areas rather than strategic or wide-ranging issues	<ul style="list-style-type: none"> Agenda management fails to prioritise key areas The chair does not intervene to keep focus at an appropriate level 	<ul style="list-style-type: none"> Review the process of agenda development Review the terms of reference and provide training The chair seeks feedback from meeting participants Provide the chair with committee management training
The audit committee is little known or understood in many parts of the authority	<ul style="list-style-type: none"> The audit committee fails to engage with many parts of the authority Attendance is often limited to the CFO and the head of internal audit 	<ul style="list-style-type: none"> Expand attendance at audit committee meetings. For example, invite heads of service when major risks or control issues are being discussed

Areas of difficulty	Possible causes	Possible improvement options
The audit committee is little known or understood by those not on the committee	<ul style="list-style-type: none"> ■ Lack of feedback or reporting arrangements 	<ul style="list-style-type: none"> ■ Invite newly elected members to attend audit committee meetings ■ Review reporting arrangements ■ Consider an annual report that sets out how the committee has fulfilled its responsibilities
Recommendations made by the audit committee are not actioned	<ul style="list-style-type: none"> ■ Poor relationship between the committee and the executive or senior officers ■ The audit committee's recommendations are not adequately aligned to organisational objectives 	<ul style="list-style-type: none"> ■ A senior officer provides internal facilitation to support improved relationships ■ Improve knowledge and skills among audit committee members ■ Ensure better engagement with appropriate managers or the executive at an earlier stage
The audit committee fails to make recommendations or follow up on issues of concern	<ul style="list-style-type: none"> ■ A weak or inexperienced chair ■ Members are inexperienced or do not fully understand their role ■ Poor briefing arrangements prior to meetings ■ Committee reports fail to adequately identify the action required by the committee 	<ul style="list-style-type: none"> ■ Provide guidance and support ■ Improve briefing to the chair prior to the meeting ■ Ensure reports contain clear recommendations
The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role	<ul style="list-style-type: none"> ■ The terms of reference do not adequately scope the work of the committee ■ Misunderstanding about the role of the committee ■ Inadequate guidance from committee secretary to the chair on its role 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance

Areas of difficulty	Possible causes	Possible improvement options
Political points of view interfere with the work of the audit committee	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee 	<ul style="list-style-type: none"> ■ Seek feedback from those interacting with the committee or external assessment ■ Provide support for or training for the chair ■ Consider the inclusion or role of independent members
A breakdown in the relationship between committee members and the executive, PCC or chief constable or with senior management	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee ■ Differing perceptions on the value of the committee ■ Personality clashes 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance ■ A senior officer provides internal facilitation to support improved relationships ■ Seek an external assessment or facilitation ■ Change the chair or membership, if the constitution or opportunity arises

APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefings or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required.

Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.

Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.

Sector and devolved government guidance

PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Establishment of audit committee	<ul style="list-style-type: none"> ■ Required 	<ul style="list-style-type: none"> ■ Required 	<ul style="list-style-type: none"> ■ Required ■ It is recommended that this should be a combined body for both PCC and chief constable 	<ul style="list-style-type: none"> No guidance
Composition of the audit committee	<ul style="list-style-type: none"> ■ Committees must have at least one independent person as defined by guidance ■ The committee should reflect the political balance of the constituent authorities, as far as is reasonably practical ■ The committee may not include an officer of the combined authority or a constituent council 	<ul style="list-style-type: none"> ■ Committees must have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor 	<ul style="list-style-type: none"> ■ Police audit committees should comprise between three and five members who are independent of the PCC and the force (where applicable) 	<ul style="list-style-type: none"> No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specified functions of the audit committee	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Review and assess the authority's risk management, internal control and corporate governance arrangements</p> <p>c) Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions</p> <p>d) Make reports and recommendations to the combined authority</p>	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Make reports and recommendations in relation to the authority's financial affairs</p> <p>c) Review and assess the risk management, internal control and corporate governance arrangements of the authority</p> <p>d) Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements</p> <p>e) Oversee the authority's internal and external audit arrangements</p> <p>f) Review the financial statements prepared by the authority</p>	<p>Consider the internal and external audit reports of both the PCC and the chief constable</p> <p>Advise the PCC and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices</p>	No guidance
Responsibilities of the audit committee in relation to external audit	<p>■ No guidance</p>	<p>■ Oversee external audit arrangements</p>	<p>■ Review external audit reports</p>	No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specific guidance	<ul style="list-style-type: none"> ■ Cities and Local Government Devolution Act 2016 ■ Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016 	<ul style="list-style-type: none"> ■ Local Government (Wales) Measure 2011 Statutory Guidance from the Local Government Measure 2011 	Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018)	N/A

PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE

Accounts and Audit Regulations are statutory instruments issued by the UK or the devolved governments. The various regulations impose requirements on ‘relevant bodies’, eg a local authority, a fire and rescue authority or police body, in relation to governance, internal control, financial reporting and internal audit.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where it is the audit committee of a relevant body that undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

The following is a summary for each sector and/or region of the sets of regulations affecting them, highlighting key regulations. The regulations are subject to periodic update by the appropriate government body and audit committee members should be made aware of any changes by their organisation.

Local authorities in England (including combined authorities and fire and rescue authorities)

Relevant government guidance	Accounts and Audit (England) Regulations 2015
Governance and risk management arrangements	Regulation 3 requires that: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body 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 or guidance

Local authorities in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018
Governance and risk management arrangements	Regulation 5 requires the following: <i>5.—(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes—</i> <i>a) arrangements for the management of risk, and</i> <i>b) adequate and effective financial management</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices
Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government Measure (Wales) 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Local authorities in Scotland

Relevant government guidance	Local Authority Accounts (Scotland) Regulations 2014
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk</i>
Financial affairs and financial statements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the financial management of the authority is adequate and effective</i> Regulation 6 relates to accounting records and control systems Regulations 8, 10 and 11 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the authority to: <i>conduct a review at least once in each financial year of the effectiveness of its system of internal control.</i>

Approval of annual governance statements	Regulation 5 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control
Internal audit	Regulation 7 requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing
Review of effectiveness of internal audit	Regulation 7 requires a local authority to assess the efficiency and effectiveness of its internal auditing in accordance with the recognised standards and practices

Local authorities in Northern Ireland

Relevant government guidance	Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
Governance and risk management arrangements	Regulation 4 requires a local government body to ensure that the financial management of the local government body is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems Regulations 7 and 8 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 4 requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control
Approval of annual governance statements	Regulation 4 requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control The accompanying guidance from the Department of the Environment identifies the CIPFA/Solace 2007 Framework and 2012 Addendum as proper practices – these have now been replaced by the 2016 Framework
Internal audit	Regulation 6 requires the local government body to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time The accompanying guidance from the Department of the Environment identifies the PSIAS as the appropriate internal audit standard

Police in England

Relevant government guidance	Accounts and Audit (England) Regulations 2015 – see also the statutory guidance Financial Management Code of Practice for the Police Forces of England and Wales (FMCP) (Home Office, 2013 – due to be updated in 2018)
Governance and risk management arrangements	Regulation 3 requires the following: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk.</i>
Authority's financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body's system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body 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 or guidance

Police in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018 – see also the FMCP
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk.</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires that the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices

Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Suggested terms of reference – local authorities and police

INTRODUCTION

This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account.

Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of purpose

- 1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 4 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 5 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7 To monitor the effective development and operation of risk management in the council.
- 8 To monitor progress in addressing risk-related issues reported to the committee.
- 9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 11 To monitor the counter-fraud strategy, actions and resources.
- 12 To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

Internal audit

- 13 To approve the internal audit charter.
- 14 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 15 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

- 19 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
 - b) regular reports on the results of the QAIP
 - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 20 To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- 21 To consider summaries of specific internal audit reports as requested.
- 22 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 23 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 24 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).
- 25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

- 26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 27 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 28 To consider specific reports as agreed with the external auditor.
- 29 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 30 To commission work from internal and external audit.
- 31 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 32 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 33 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- 34 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 35 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 36 To publish an annual report on the work of the committee.

SUGGESTED TERMS OF REFERENCE – POLICE

There is no formal requirement as to how the audit committee relates to the governance structures of the PCC and the chief constable, but it is recommended that this is clearly set out in the terms of reference.

Statement of purpose

- 1 Our [audit] [joint audit] committee is a key component of [name of body]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our [audit] [joint audit] committee is to provide independent advice and recommendation to [select from 'the police and crime commissioner' (or name), 'the chief constable' (or name)] on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of [name of body]'s governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit.
- 3 These terms of reference will summarise the core functions of the committee in relation to the office of the police and crime commissioner (OPCC) and to the constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 4 Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 5 Review the annual governance statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
- 6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the constabulary.
- 8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the PCC/the chief constable in addressing risk-related issues reported to them.
- 9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter fraud strategy, actions and resources.
- 11 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 12 Annually review the internal audit charter and resources.
- 13 Review the internal audit plan and any proposed revisions to the internal audit plan.
- 14 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- 15 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- 16 To consider the head of internal audit's statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
- 17 Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/the chief constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- 18 Consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the [Accounts and Audit Regulations \(Wales\) 2014](#) (see Appendix A).

- 19 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.

External audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 20 Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by either PSAA or the auditor panel as appropriate.
- 21 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- 22 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
- 23 Consider specific reports as agreed with the external auditor.
- 24 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 25 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the PCC and/or the chief constable.
- 26 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

Accountability arrangements

The committee will do the following:

- 27 On a timely basis report to the PCC and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- 28 Report to the PCC and the chief constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 29 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the chief constable.
- 30 Publish an annual report on the work of the committee.

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	<ul style="list-style-type: none"> ■ An overview of the governance structures of the authority and decision-making processes ■ Knowledge of the organisational objectives and major functions of the authority 	<ul style="list-style-type: none"> ■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions (Chapters 3 and 6)	<ul style="list-style-type: none"> ■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements ■ Knowledge of the purpose and role of the audit committee 	<ul style="list-style-type: none"> ■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS ■ Knowledge of the local code of governance 	<ul style="list-style-type: none"> ■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework ■ The committee will plan the assurances it is to receive in order to adequately support the AGS ■ The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit (Chapter 4)	<ul style="list-style-type: none"> ■ An awareness of the key principles of the PSIAS and the LGAN ■ Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled 	<ul style="list-style-type: none"> ■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards ■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards ■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed ■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting (Chapter 4)	<ul style="list-style-type: none"> ■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them ■ Understanding of good financial management principles ■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018) 	<ul style="list-style-type: none"> ■ Reviewing the financial statements prior to publication, asking questions ■ Receiving the external audit report and opinion on the financial audit ■ Reviewing both external and internal audit recommendations relating to financial management and controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS
External audit (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the role and functions of the external auditor and who currently undertakes this role ■ Knowledge of the key reports and assurances that external audit will provide ■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken 	<ul style="list-style-type: none"> ■ The audit committee should meet with the external auditor regularly and receive their reports and opinions ■ Monitoring external audit recommendations and maximising benefit from audit process ■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	<ul style="list-style-type: none"> ■ Understanding of the principles of risk management, including linkage to good governance and decision making ■ Knowledge of the risk management policy and strategy of the organisation ■ Understanding of risk governance arrangements, including the role of members and of the audit committee 	<ul style="list-style-type: none"> ■ In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces ■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee ■ The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud (Chapter 4)	<ul style="list-style-type: none"> ■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed ■ Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Knowledge of the organisation's arrangements for tackling fraud 	<ul style="list-style-type: none"> ■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy ■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment
Values of good governance (Chapter 5)	<ul style="list-style-type: none"> ■ Knowledge of the Seven Principles of Public Life ■ Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff ■ Knowledge of the whistleblowing arrangements in the authority 	<ul style="list-style-type: none"> ■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS ■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)	<ul style="list-style-type: none"> ■ Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> – regulatory requirements – treasury risks – the organisation's treasury management strategy – the organisation's policies and procedures in relation to treasury management ■ See also Treasure Your Assets (CfPS, 2017) 	<ul style="list-style-type: none"> ■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	<ul style="list-style-type: none"> Professional qualification in accountancy 	<ul style="list-style-type: none"> More able to engage with the review of the accounts and financial management issues coming before the committee Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues More able to engage with the external auditors and understand the results of audit work
Internal audit	<ul style="list-style-type: none"> Professional qualification in internal audit 	<ul style="list-style-type: none"> This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing The committee would be more able to provide oversight of internal audit and review the output of audit reports
Risk management	<ul style="list-style-type: none"> Risk management qualification Practical experience of applying risk management Knowledge of risks and opportunities associated with major areas of activity 	<ul style="list-style-type: none"> Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers
Governance and legal	<ul style="list-style-type: none"> Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law 	<ul style="list-style-type: none"> Legal knowledge may add value when the committee considers areas of legal risk or governance issues
Service knowledge relevant to the functions of the organisation	<ul style="list-style-type: none"> Direct experience of managing or working in a service area similar to that operated by the authority Previous scrutiny committee experience 	<ul style="list-style-type: none"> Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Programme and project management	<ul style="list-style-type: none"> Project management qualifications or practical knowledge of project management principles 	<ul style="list-style-type: none"> Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews
IT systems and IT governance	<ul style="list-style-type: none"> Knowledge gained from management or development work in IT 	<ul style="list-style-type: none"> Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	<ul style="list-style-type: none"> Able to focus on material issues and overall position, rather than being side tracked by detail 	<ul style="list-style-type: none"> When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail
Questioning and constructive challenge	<ul style="list-style-type: none"> Able to frame questions that draw out relevant facts and explanations Challenging performance and seeking explanations while avoiding hostility or grandstanding 	<ul style="list-style-type: none"> The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	<ul style="list-style-type: none"> Ensuring there is a clear plan of action and allocation of responsibility 	<ul style="list-style-type: none"> The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	<ul style="list-style-type: none"> Able to understand the practical implications of recommendations to understand how they might work in practice 	<ul style="list-style-type: none"> The audit committee should seek assurances that planned actions are practical and realistic

Skills	Key elements	How the audit committee member is able to apply the skill
Clear communication skills and focus on the needs of users	<ul style="list-style-type: none"> Support the use of plain English in communications, avoiding jargon, acronyms, etc 	<ul style="list-style-type: none"> The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	<ul style="list-style-type: none"> Evaluate information on the basis of evidence presented and avoiding bias or subjectivity 	<ul style="list-style-type: none"> The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views
Meeting management skills	<ul style="list-style-type: none"> Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting 	<ul style="list-style-type: none"> These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

APPENDIX D

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (applicable to local government only)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	■ good governance			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

Good practice questions		Yes	Partly	No
	■ counter fraud and corruption			
	■ supporting the ethical framework			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?			

Membership and support

12	Has an effective audit committee structure and composition of the committee been selected? This should include: ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?			
18	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
Effectiveness of the committee				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

Evaluating the effectiveness of the audit committee

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making	<ul style="list-style-type: none"> ■ Supporting the development of a local code of governance ■ Providing robust review of the AGS and the assurances underpinning it ■ Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it ■ Supporting reviews/audits of governance arrangements ■ Participating in self-assessments of governance arrangements ■ Working with partner audit committees to review governance arrangements in partnerships 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Contributing to the development of an effective control environment	<ul style="list-style-type: none"> ■ Actively monitoring the implementation of recommendations from auditors ■ Encouraging ownership of the internal control framework by appropriate managers ■ Raising significant concerns over controls with appropriate senior managers 		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<ul style="list-style-type: none"> ■ Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<ul style="list-style-type: none"> ■ Specifying its assurance needs, identifying gaps or overlaps in assurance ■ Seeking to streamline assurance gathering and reporting ■ Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit 		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> ■ Reviewing the audit charter and functional reporting arrangements ■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements ■ Actively supporting the quality assurance and improvement programme of internal audit 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<ul style="list-style-type: none"> ■ Reviewing how the governance arrangements support the achievement of sustainable outcomes ■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place ■ Reviewing the effectiveness of performance management arrangements 		
Supporting the development of robust arrangements for ensuring value for money	<ul style="list-style-type: none"> ■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee ■ Considering how performance in value for money is evaluated as part of the AGS 		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	<ul style="list-style-type: none"> ■ Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks ■ Assessing the effectiveness of ethical governance arrangements for both staff and governors 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	<ul style="list-style-type: none"> ■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English ■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency ■ Publishing an annual report from the committee 		

Appendix B

CHESTERFIELD BOROUGH COUNCIL – Standards and Audit Committee Self - Assessment Action Plan June 2017

	Action Identified	By Date	Action by	Progress as at June 2018
(1)	That Article 9 of the Constitution – Standards and Audit Committee should be updated to reflect that the Committee have the right to call in Officers of the Council to seek assurances and explanations in terms of the governance arrangements of the council.	May 18	Local Government and Regulatory Law Manager	This change is part of a series of updates to Part 2 of the Constitution which have been drafted but not yet uploaded.
(2)	That consideration be given to adding the role of the Standards and Audit Committee back in to the induction training of Members	May 18	Democratic Services	This will be undertaken as part of Member training after the May 2019 elections
(3)	That an article be placed in the Borough Bulletin/on Aspire to explain the role and purpose of the Standards and Audit Committee	December 17	Internal Audit Consortium Manager to draft an article for the Standards and Audit Committee in September 2017 with a view to publishing by the end of December 2017	Article drafted but not published. Communications Manager feels that an edge to the story is required
(4)	That the Standards and Audit Committee should undertake a self – assessment on an annual basis	Each April	Standards and Audit Committee	Undertaken May 17 and to be undertaken again July 18

	Action Identified	By Date	Action by	Progress as at June 2018
(5)	That the Standards and Audit Committee produce an annual report for Council detailing the work that it has undertaken during the year and how it has added value to the council's governance arrangements	May 2018	Chair of the Standards and Audit Committee/ Local Government and Regulatory and Law Manager/ Internal Audit Consortium Manager	Annual report approved by the Standards and Audit Committee May 18 and going to Council July 18

Self-assessment of Good Practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and publication. Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

New questions are highlighted in bold

Good Practice Questions		Y	Part	N	Comment
Audit committee purpose and governance					
1	Does the authority have a dedicated audit committee?				The Standards and Audit Committee is a well- established committee
2	Does the audit committee report directly to full council?				The Standards and Audit Committee can make reports to full council. Council receives the minutes of the Standards and Audit Committee
3	Do the terms of reference clearly set out the purpose of the				CIPFA's Position Statement says "The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management

Good Practice Questions		Y	Part	N	Comment
	committee in accordance with CIPFA's Position Statement?				<p>framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place"</p> <p>The Standards and Audit Committee oversee internal and external audit and also receive reports on risk management, the financial statements and approve the Annual Governance Statement.</p>
4	Is the role and purpose of the audit committee understood and accepted across the authority?				<p>The role and function of the Standards and Audit Committee is detailed within the Council's Constitution.</p> <p>The attendance of heads of service etc. at audit committee when major risks or controls are discussed helps to increase understanding of the committee's role.</p>
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?				<p>The Standards and Audit Committee receive regular reports from internal and external audit that highlight any governance issues. The committee reviews all "Limited and Inadequate" internal audit reports. Officers are required to provide assurance to the committee that internal audit recommendations are being implemented in a timely manner thereby strengthening governance arrangements.</p>
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?				<p>The committee reports to full council that oversees their performance. The committee has produced an annual report to Council setting out the work they have undertaken during the year.</p> <p>The Director of Finance and Resources, the Local Government Regulatory and Law Manager, the Internal Audit Consortium Manager and external audit can advise the committee of its duties and responsibilities.</p>
Functions of the committee					

Good Practice Questions	Y	Part	N	Comment
<p>7 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?</p> <ul style="list-style-type: none"> • Good governance • Assurance framework, including partnerships and collaboration arrangements • Internal audit 				<p>The committee's role and function is detailed within the Constitution. Extracts below:-</p> <p>To consider the effectiveness of the control environment, (including approval of the code of corporate governance and the annual assurance statement).</p> <p>To ensure that the council's assurance statements, including the annual governance statement, properly reflect the risk environment and to recommend any actions required to improve it.</p> <p>To receive an annual report from the Head of Internal Audit. To approve (but not direct) the council's internal audit strategy, work plan and to monitor performance. To review internal audits reports and to seek assurance that action has been taken where necessary</p> <p>To review external audits reports and to seek assurance that action has been taken where necessary</p> <p>To review the financial statements and the external auditor's opinion and reports to members (including the external auditor's annual management letter), and to monitor management action in response to the issues raised. To approve the Authority's statement of accounts</p> <p>To consider the effectiveness of the council's risk management arrangements, to ensure that the Council's assurance statements</p>

Good Practice Questions		Y	Part	N	Comment
	<ul style="list-style-type: none"> External audit Financial reporting Risk management 				<p>properly reflect the risk environment, to seek assurance that action is being taken on risk-related issues identified by auditors and inspectors.</p> <p>No specific mention of VFM but is this inherent within a sound control environment? The role of the standards and audit Committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against value for money objectives.</p> <p>One specific area of activity for the committee should be consideration of the external audit opinion on value for money.</p> <p>To consider the effectiveness of associated anti-fraud and anti-corruption arrangements (including approval and review of the council's anti-fraud and corruption strategy)</p> <p>Promoting and maintaining high standards of conduct by councillors and co-opted members of the authority</p>

Good Practice Questions		Y	Part	N	Comment
	<ul style="list-style-type: none"> Value for money or best value Counter-fraud and corruption 				

Good Practice Questions		Y	Part	N	Comment
	<ul style="list-style-type: none"> Supporting the ethical framework 				
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?				This review will help the committee to determine if it is fulfilling its terms of reference.
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?				<p>In addition to the above the standards and audit committee also</p> <ul style="list-style-type: none"> Consider the council's treasury management strategy and arrangements. Perform the role of a standards committee to support ethical values <p>Other considerations raised by CIPFA's Position Statement re:-</p> <ul style="list-style-type: none"> Considering governance, risk or control matters at the request of other committees or statutory officers. Providing oversight of other public reports, such as the annual report (CBC don't produce an annual report)
10	Where coverage of core areas has been found to be limited, are plans in				All of the core areas Appear to be covered

Good Practice Questions		Y	Part	N	Comment
	place to address this?				
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?				<p>The Constitution clearly sets out where decision making powers lie.</p> <p>The decisions the committee makes are in line with its core purpose e.g. approval of the Annual Governance Statement, approval of the Anti-Fraud Bribery and Corruption Policy.</p>
Membership and support					
12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • consideration has been given 				<p>The Constitution states membership of the Standards and Audit Committee to be:-</p> <p>Composed of 7 members as follows:</p> <ul style="list-style-type: none"> - five councillors other than the executive leader. No more than one of those five councillors may be a member of the Cabinet - two parish representative members being one member of Staveley Town Council and one member of Brimington Parish Council. <p>Membership from executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters.</p>

Good Practice Questions		Y	Part	N	Comment
	to the inclusion of at least one independent member (where it is not already a mandatory requirement).				
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and Chief Constable as appropriate for the organisation?				N/A – There are no independent Members
14	Does the chair of the committee have appropriate knowledge and skills?				There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.

Good Practice Questions		Y	Part	N	Comment
15	Are arrangements in place to support the committee with briefings and training?				<p>The Committee is supported by the Director of Finance and Resources, the Internal Audit Consortium Manager, the Local Government Regulatory and Law Manager and the Democratic and Scrutiny Officer.</p> <p>Training is held when Members are first appointed and at intervals through the term of office.</p>
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?				<p>No one committee member would be expected to be an expert in all areas.</p> <p>Appendix C (audit committees Practical Guidance for Local Authorities and Police) sets out a knowledge and skills framework for audit committee members and the committee chair.</p>
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?				<p>Internal and external audit, the Local Government Regulatory and Law Manager and the Director of Finance and Resources all regularly attend the Standards and Audit Committee. These officers can access the committee or chair if required. The committee has the right to call any other officers of the authority as required.</p> <p>The committee receives regular internal audit, risk management, treasury management reports etc.</p>
18	Is adequate secretariat and administrative support to the committee provided?				<p>There is a Democratic and Scrutiny Officer that provides secretariat and administrative support to the committee</p>
19	Has the committee obtained feedback on its				<p>The audit committee should be held to account on a regular basis by the group to which it is accountable – Council. The aspects that</p>

Good Practice Questions		Y	Part	N	Comment
	performance from those interacting with the committee or relying on its work?				<p>should specifically be considered include:-</p> <ul style="list-style-type: none"> • whether the committee has fulfilled its agreed terms of reference • whether the committee has adopted recommended practice • whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities • Whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review • What impact the committee has on the improvement of governance, risk and control within the authority. <p>The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account.</p>
20	Are meetings effective with a good level of discussion and engagement from all the members?				Does the Committee feel that all Members contribute effectively?
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?				The committee regularly invites officers to attend meetings to provide assurance, discuss audit findings and action plans
22	Does the committee make				The committee supports internal and external audit in advocating the implementation of their recommendations in relation to

Good Practice Questions		Y	Part	N	Comment
	recommendations for the improvement of governance, risk and control and are these acted on?				governance, risk and control.
23	Has the committee evaluated whether and how it is adding value to the organisation?				Through review of internal and external reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition by overseeing the process of evaluating and improving governance, risk management and control the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well. Appendix E (audit committees Practical Guidance for Local Authorities and Police) identifies areas where the audit committee can add value by supporting improvement.
24	Does the committee have an action plan to improve any areas of weakness?				To be formulated if the above evaluation highlights any weaknesses
25	Does the committee publish an annual report to account for its performance and explain its work?				The committee approved an annual report in May that will be presented to Council In July 2018.

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