



Audit Committee

Date and Time: Thursday, 28 May 2020 at 1.00 pm
Host Venue: Stoke-on-Trent City Council
Contact Officer: Julie Harvey, Senior Governance Officer
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Chair Councillor Stephen Funnell
Vice-Chair Councillor James Smith
Members Councillors L Adams, L Beardmore, L Dodd, C Edwards, D Elliott, C Gerrard and S Pitt



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Audit Committee



agenda

Thursday, 28 May 2020 at 1.00 pm

PART 1 – OPEN AGENDA

1. APOLOGIES FOR ABSENCE
2. MINUTES OF LAST MEETING (31.1.20) (Pages 1 - 6)
3. DISCLOSURE OF INTERESTS
4. ACCOUNTING POLICIES ADOPTED FOR 2019/20 STATEMENT OF ACCOUNTS (Pages 7 - 26)
5. PUBLICATION OF PRE-AUDIT STATEMENT OF ACCOUNTS 2019/20 (Pages 27 - 30)
6. PUBLICATION OF DRAFT ANNUAL GOVERNANCE STATEMENT (Pages 31 - 34)
7. INTERNAL AUDIT PLAN 2020/21 (Pages 35 - 52)
8. EXTERNAL AUDIT PLAN (Pages 53 - 96)
9. INTERNAL AUDIT ANNUAL REPORT 2019/20 (Pages 97 - 130)
10. WORK PLAN (Pages 131 - 136)

Date of Next Meeting - Wednesday, 29 July 2020 at 10.00 am

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AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held at the Civic Centre, Glebe Street, Stoke-on-Trent on Thursday, 30 January 2020

Present

Councillor Stephen Funnell (Chair), Councillor James Smith (Vice-Chair), Councillor Lorraine Beardmore and Councillor Sheila Pitt

Other Attendees

Nick Edmonds (Assistant Director - Finance (Section 151)), Paul Boden (Strategic Manager - Corporate Finance), Clare Potts (Strategic Manager - Audit and Fraud), Luke Rodgers (Senior Business Partner - Financial Reporting and Treasury) Hassan Rohimun (Ernst Young) and Julie Harvey (Senior Governance Officer)

32 APOLOGIES FOR ABSENCE

Apologies were received from Councillors, Adams, Edwards, Elliott and Gerrard and Councillor Brown, Cabinet Member for Corporate Resources, Strategy and Partnerships.

33 MINUTES OF LAST MEETING (24/10/19)

Resolved – That the Chair be authorised to sign the minutes of the last meeting of the Audit Committee held on 24 October 2019 as a true and correct record of the proceedings.

34 DISCLOSURE OF INTERESTS

There were no declarations of interest.

35 ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2019

The Committee received the External Auditor's Annual Audit Letter for the year ended 31 March 2019.

The detailed findings from the 2018/19 audit were reported to the Committee on 25 July 2019 and 24 October 2019 (clauses 15 and 31 refer) and it was confirmed that the certificate was issued on 25 October 2019, to confirm that the audit had been completed in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.

The report summarised the findings, comprising of the audit of financial statement, and the arrangements to secure value for money.

The Committee were reminded that the External Auditor had provided an unqualified opinion in respect of the accounts, which gave a true and fair view of the financial position of the Council and Group as at 31 March 2019, and that there had been one none material adjustment in relation to the HRA (Housing Revenue Account) valuation which the authority had chosen not to make as there was no impact on the accounts.

Resolved – That the Annual Audit Letter (2018/19) be noted.

36 ANNUAL REVIEW OF THE MANAGEMENT OF RISK POLICY

The Strategic Manager - Audit and Fraud submitted the updated Management of Risk Policy to the Committee for consideration.

It was recognised as best practice for an organisation to review their management of risk arrangements on a regular basis, and to enhance policy and practices to maintain a robust strategy for recognising risks and recording appropriate risk controls.

The Strategic Manager – Audit and Fraud summarised the changes to the policy and confirmed that one of the main additions was a new section in respect of the council's appetite to risk across a variety of risk categories, to support decision making and alignment of risk taking.

Continuing, she confirmed that the policy would be presented to Cabinet for approval in due course.

Resolved - That the updated Management of Risk Policy be noted and submitted to Cabinet for approval.

37 STRATEGIC RISK REGISTER

The Strategic Manager – Audit and Fraud submitted the City Council's Strategic Risk Register to the Committee for review and comments.

It was acknowledged that the Strategic Risk Register was an important part of the organisations risk management framework and, in addition, it formed part of the internal control and corporate governance arrangements of the organisation.

The Committee were informed that the Strategic Risk Register was monitored on an on-going basis and recorded risks that could affect the City Council's ability to deliver its corporate priorities and statutory responsibilities.

The Strategic Manager – Audit and Fraud highlighted the recent amendments made to the register.

The Assistant Director Finance (Section 151 Officer) referred to the imminent arrival of the new City Director and suggested that the register would be an area of interest for him. He confirmed that the register was regularly reviewed by the Senior Management Team (SMT), Cabinet and other committees.

The Chair requested that the new City Director be invited to attend a future meeting of this Committee, mindful that it was seen as good practice.

Resolved – That the contents of the Strategic Risk Register be noted.

38 TREASURY MANAGEMENT FORECAST THREE QUARTER REVIEW 2019/20

The Strategic Manager – Corporate Finance submitted a report detailing the authority's treasury management activity during quarter three of the 2019/20 financial year.

The report detailed the outturn for treasury management as affected by capital expenditure, borrowing and investment decisions measured against the City Council's prudential indicators. The key points to note were:-

- All investment made during the first three quarters of 2019/20 complied with the approved Treasury Management Strategies;
- Interest earned from all investments during the first three quarters of 2019/20 (up to end of December) was £137,000;
- The council had borrowed two amounts of £20 million for a period of 40 years and 41 years at an average rate of 2.215% and two amounts of £10 million for a period of 2 years at an average rate of 1.600%;
- The council had repaid debt of £6.098 million;
- Prudential indicators approved by City Council on 28 February 2019 had been monitored throughout the first three quarters of 2019/20 and at no stage where any limits breached.

Resolved – That the Treasury Management Forecast Quarter Three review 2019/20 be noted.

39 TREASURY MANAGEMENT ANNUAL BORROWING AND INVESTMENT STRATEGY 2020/21 AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2020/21

The Strategic Manager – Corporate Finance submitted the Treasury Management Annual Borrowing and Investment Strategy 2020/21 and Minimum Revenue Provision

Policy Statement 2020/21 to the Committee for consideration, prior to forming part of the Medium Term Financial Strategy Budget report to be presented to City Council on 27 February 2020.

The Treasury Management (TM) operation involved the management of cash flow, borrowing and investments and the associated risks. Such activities were supported by recommended guidance; CIPFA Code of Practice for Treasury Management in the Public Service.

The Committee were informed that the City Council had operated in accordance with the CIPFA's Prudential Code for Capital Finance in Local Authorities, which required the preparation of a number of prudential indicators. The purpose being to ensure that any borrowing agreed by the authority was prudent and affordable.

The purpose of the Minimum Revenue Provision (MRP) Policy Statement 2020/21 was to set out the method by which the costs of past capital financed by supported and unsupported borrowing and other credit liabilities were charged to the General Fund. The policy had regard to the MRP guidance in line with statutory requirements.

Resolved – That after considering the governance requirements, the report be endorsed and incorporated into the Medium Term Financial Strategy and Council Tax Setting 2020/21 for submission to Cabinet and final approval by City Council.

40 INTERNAL AUDIT QUARTERLY MONITORING 2019/20 - OCTOBER TO DECEMBER 2019

The Strategic Manager – Audit and Fraud submitted a report which provided a summary of the activities of Internal Audit for the period October to December 2019.

During the quarter, the work of internal Audit had resulted in the issuing of ten reviews (seven audits and three health checks) containing 34 recommendations, all of which were classed as either medium or low risk or not evaluated. Of the 10 reviews, only one received an unsatisfactory opinion which was in respect of Adults Safeguarding Training. Members were informed of the main weaknesses which had been identified, and consequently the Committee requested that the relevant Strategic Manager attend a future meeting of the Committee to give further details and future assurance.

Continuing, the Strategic Manager – Audit and Fraud referred to recommendations made in previous years, which were also subject to ongoing monitoring. In response to a question from Councillor Beardmore, she confirmed that all recommendations were monitored and reported against their original deadline date.

Resolved – That in accordance with the Committee's Terms of Reference, the Internal Audit monitoring report for the period October – December 2019 be noted.

41 ROLES AND RESPONSIBILITIES

The Strategic Manager – Audit and Fraud submitted a report which detailed previous activities that the Committee had undertaken in relation to assessing their roles and responsibilities in relation to governance.

The Committee were reminded that they held a key role in the authority's Governance Framework and, by undertaking self-assessment against recognised best practice, they were able to measure performance and demonstrate continuous improvement.

The report detailed the options available to the Committee to assess their performance as set out within the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance, 2018 edition.

Continuing, the Strategic Manager – Audit and Fraud confirmed that she had been working with the Vice-Chair, Councillor Smith in relation to the most appropriate ways for the committee to undertake the assessment, and advised that she was mindful that the guidance had changed since the last full self-assessment was undertaken by the Committee in 2017. She suggested that the Committee could undertake individual self-assessment in line with previous years or alternatively could undertake a group self-assessment exercise supported by officers.

After some debate, the Committee agreed to undertake a group 'Self-Assessment of Good Practice' (Appendix A) supported by officers (workshop). The Strategic Manager – Audit and Fraud was asked to identify a suitable date. It was further agreed that Members would individually complete the 'Knowledge and Skills Framework' (Appendix B) at the conclusion of the workshop. The Strategic Manager – Audit and Fraud confirmed that she has reviewed the effectiveness of the Committee as detailed within Appendix C of the report, the outcome of which suggested that the Committee was performing well and scored 5 or 4 across eight of the nine areas identified. The External Auditor confirmed that he was also happy to support the workshop, should the committee desire.

Resolved – That the report be noted and arrangements be made for members to complete the self-assessments.

42 WORK PROGRAMME

The Assistant Director – Finance (Section 151) submitted the work programme for the period January to October 2020, for the Committee’s consideration.

Resolved – That the work programme be noted.

COUNCILLOR STEPHEN FUNNELL (CHAIR)

Open Report

City of
Stoke-on-Trent

Audit Committee

28 May 2020

Accounting Policies adopted for 2019/20 Statement of Accounts

Report of	Section 151 Officer
Report Author	Nick Edmonds - Assistant Director Finance
Type of Decision	Regulatory Decision
Cabinet Member	Cabinet Member for Corporate Resource, Strategy and Partnerships
Wards Affected	No Ward Implications
Stronger Together Priorities and how they are applicable:	
A innovative and commercial council, providing effective leadership to help transform outcomes	
<i>Ensuring that the council has policies in place to account for transactions correctly</i>	

1.0 Reason and Purpose of Report:

- | | |
|-----|--|
| 1.1 | To advise the Committee on the Accounting Policies prepared by the Section 151 Officer to inform the Statement of Accounts for 2019/20 and consider the changes in accounting standards applicable from 2020/21. |
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Recommendation(s):

- | | |
|-----|---|
| 2.1 | That Committee note the accounting policies (Appendix A Section 1) applicable to the statement of accounts for the year ended 31 March 2020 as prepared by the Section 151 Officer. |
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Summary of Main Points:

- | | |
|-----|--|
| 3.1 | Standards in Financial Reporting
In the UK the Financial Reporting Advisory Board (FRAB) has the role to promote the highest possible standards in financial reporting by Government and to help to ensure that any adaptations of, or departures from, International Financial Reporting standards (IFRS) are justified and properly explained. The FRAB is responsible for providing independent advice to the relevant authorities on financial reporting principles and standards. Relevant authorities include the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) in respect of local authority accounts across England. |
| 3.2 | In Local Government the Local Authority Accounting Code Board is a standing committee of CIPFA and LASAAC responsible for developing the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code), and shares the FRAB's aim of promoting the highest possible standards in financial reporting. |

3.3	<p>Proper Accounting Practice</p> <p>The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2019. In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.</p>
3.4	<p>The Code specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including group financial statements where a local authority has material interests in subsidiaries, associates or joint ventures.</p>
3.5	<p>The Code involves adaptations and interpretations of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (IASB) subject to such adaptations and interpretations as are necessary for the local government context. Where adaptations and interpretations of International Financial Reporting Standards contained in the Code are in line with the guidance contained in International Public Sector Accounting Standards or other reporting standards relevant to the public sector, authorities shall refer to those standards for further guidance.</p>
3.6	<p>The Code prescribes the accounting treatment and disclosures for all normal transactions of a local authority, and is based on European Union adopted IFRS. On the few occasions where the CIPFA/LASAAC Local Authority Accounting Code Board considers it appropriate to adapt IFRSs, the accounting treatment is based on the approach in the Memorandum of Understanding between the Relevant Authorities.</p>
3.7	<p>The Code requires that the accounting policies and estimation techniques be adopted for material items. These policies and techniques have been selected to accord with the accounting concepts and principles set out in this section and, with International Financial Reporting Standards (as adapted for the public sector context, where necessary).</p>
3.8	<p>The regulations arising Accounts and Audit Regulations (England) 2015 prescribe statutory provisions regarding the overall format and approval procedures for authorities' financial statements. The detailed requirements of the Statement of Accounts is published annually by CIPFA in the form of the Code with further supporting guidance contained in Local Authority Accounting Panel (LAAP) bulletins is applied as relevant.</p>
3.9	<p>Objective and Purpose of The Statement of Accounts</p> <p>The City Council's accounts are presented on a basis that complies with IFRS and the Code. The publication of a Statement of Accounts is a statutory requirement and its objective is to provide information about the City Council's financial performance to a wide range of users for assessing the stewardship of the council's management.</p>
3.10	<p>The purpose is to give readers and stakeholders clear information about the City Council's finances and to answer questions such as: what did the council services cost; where the money came from; what are the significant events this year; and what is the net worth of the City Council.</p>
3.11	<p>The Accounts are prepared to give a true and fair view of the financial position, financial performance and cash flows of an authority. A true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Code.</p>

3.12	<p>Chief Financial Officer (CFO) (Section 151 Officer) and Audit Committee Responsibilities in respect of the Statement of Accounts</p> <p>The CFO in local government is not only bound by professional standards but also by specific legislative responsibilities. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements. The Statement on the role of the Chief Financial Officer (CFO) in Local Government published by CIPFA provides detailed advice on how to apply the overarching public services Statement within local government setting out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role.</p>
3.13	<p>Within the City Council's Constitution - Part 3a Responsibility for Council Function – the responsibility has been delegated to Audit Committee to approve the Council's annual Statement of Accounts.</p> <p>Section 4f – Financial Regulations - subsection 3.03 and 3.04 - Accounting Arrangements require the Section 151 Officer to;</p> <p>3.03 In preparing the Statement of Accounts, the Section 151 Officer shall:</p> <ul style="list-style-type: none"> a) Select suitable accounting policies and apply them consistently. b) Make judgements and estimates that are reasonable and prudent. c) Ensure proper accounting records are maintained. d) Take reasonable steps for the prevention and detection of fraud and other irregularities. <p>3.04 The Section 151 Officer must make proper arrangements for the audit of the City Council's accounts in accordance with the most recent Accounts and Audit Regulations.</p>
3.14	<p>Accounting Policies</p> <p>It is the responsibility of the s151 officer to determine the accounting policies that will apply to the production of the statement of accounts for each applicable financial year and is made in consideration of and compliance with the requirement to apply accounting policies as prescribed in the Code and International Accounting Standard (IAS) 8.</p>
3.15	<p>In support of the delegated authority of Audit Committee to approve the annual accounts; attached at Appendix A section 1 are the Accounting Policies applied in 2019/20.</p>
3.16	<p>The 2019/20 CIPFA Code of practice on Local Authority Accounting has only minor changes compared to 2018/19, none of which are judged to be material for the Council.</p>
3.17	<p>The accounting standards require the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code 2019/20 accounts, these are attached for information, at Appendix A section 2.</p>

Technical Appendix:

List of Background papers <i>(information not already published):</i>	
None	
List the appendices included as part of this report:	
Appendix A	
Section 1 – Accounting policies	
Section 2 – Accounting Standards Issued But Not Yet Adopted	

Implications taken into consideration in this report *(Please list as separate appendix if required):*

Financial and Commercial:	
The policies in Appendix A underpin the Council's reporting on its financial performance and position.	
Legal:	
The council's ability to meet statutory deadlines relating to the approval and publication of its Statement of Accounts will be supported.	
Human Resources:	
No direct impact	
Public Health and Public Services (Social Value) Act 2012:	
No direct impact	
Equality Impact or Environmental Impact Assessments:	
No direct impact	
Key Risks:	
The Accounts are not produced on time or in good order.	

Options Considered:	
1.	No other options – the council has a statutory responsibility to produce and publish annual statement of accounts.

SECTION 1**ACCOUNTING POLICIES****Purpose**

Accounting policies are the specific principles, conventions, rules and practices applied by a local authority in preparing and presenting its financial statements. They:

- set out the basis for accounting i.e. confirm (or otherwise) that the authority complies with the Accounting Code and relevant statutory reporting requirements
- highlight any changes in accounting policies or other information compared to previous years
- set out how any discretion on accounting policy choices permitted by the Accounting Code have been exercised
- identify new accounting policies which have been adopted, for example, on the implementation of a new reporting standard.

Accounting policies focus on recognition, measurement and presentation

The Statement of Accounts summarises the Council's transactions for the financial year as published and its position at the year-end of 31 March of that financial year. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2014, which require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis; that is that there is the assumption that the functions of the Council will continue in operational existence.

ACCRUED REVENUE INCOME AND EXPENDITURE

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

BASIS OF CHARGES FOR CAPITAL

All interest charges and expenses arising on loans raised to fund capital expenditure are recharged on an accruals basis to the Housing Revenue Account and the General Fund as appropriate.

CASH AND CASH EQUIVALENTS

Cash is represented as cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and 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 City Council's cash management strategy.

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following to record the service cost of using non-current assets during the year;

- depreciation
- revaluation and impairment losses
- amortisation of intangible assets

For General Fund the Council is not required to raise council tax to finance depreciation, revaluation and impairment losses or amortisation. These are replaced by a Minimum Revenue Provision charged to the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

For the Housing General Fund the Council is not required to charge a Minimum Revenue Provision but instead sets aside resources to finance the principal of any amount borrowed.

CONTINGENT LIABILITIES

A contingent liability is a possible financial obligation that arises from past events which will only crystallise if certain events take place. The obligation cannot be measured sufficiently reliably and is disclosed as such.

COUNCIL TAX AND NON-DOMESTIC RATES

The collection of council tax and non-domestic rates is an agency arrangement for the council, as billing authority, other preceptors and central government. The income in respect of the council from council tax and non-domestic rates is included in the Comprehensive Income and Expenditure Statement for the year on an accruals basis. The cash collected belongs proportionately to the City Council, the preceptors and central government. The City Council recognises its share of any outstanding council tax and non-domestic rates arrears, receipts in advance adjusted by an impairment allowance and an allowance for appeals made by non-domestic rates payers in its balance sheet.

Regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. 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 in the Movement in Reserves statement.

EMPLOYEE BENEFITS

Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. The cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period. This charge is reversed through the Movement in Reserves Statement to unusable reserves.

Termination Benefits

When the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy, these costs are charged on an accruals basis to the respective Service line in the Comprehensive Income and Expenditure

Statement. Where those benefits involve the enhancement of pensions the amount payable is charged to the General Fund Balance.

Post-employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered on behalf of the Department for Education (DfE),
- The National Health Service (NHS) Pension scheme,
- The Local Government Pension Scheme (LGPS).

Each scheme provides defined benefits to members (retirement lump sums and pensions), earned whilst employees are working for the Council. However, the centralised arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits recognised in the Balance Sheet. The Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pension Scheme and the NHS Pension Scheme in the year.

The Local Government Pension Scheme is accounted for as a defined benefits scheme. The liabilities of the Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and forecasts of projected earnings for current employees). The increase in the liability arising from pensionable service earned during the year is recognised within the net cost of services.

The assets of the Pension Fund attributable to the Council are included in the Balance Sheet at their fair value. The change in the net pension liability is analysed into its components:

- **Current Service Cost:**
The increase in liabilities as a result of years of service earned this year is allocated in the Comprehensive Income and Expenditure Statement to the service areas for which the employees worked.
- **Past service cost;**
Is the increase in liabilities arising from current year decisions 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 and Expenditure Statement as part of Non-distributed Costs. The Council also recognise a gain or loss on settlement when the settlement occurs. The settlement is deemed to occur when the authority enters into a transaction which eliminates all further obligations for part or all of the benefits provided under the LGPS defined benefit plan.
- **Net interest on the net defined benefit liability:**
The expected increase in the present value of liabilities during the year as they move one year closer to being paid offset by the interest on assets which is the interest on assets held at the start of the year and cash flows occurring during the period. The result is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **Remeasurements:**
These comprise the return on plan assets excluding amounts included in net interest and actuarial gains and losses. The latter is the changes in the net pension liability which arise because actuaries have updated their assumptions. These are charged to Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- **Contributions paid to the 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 or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this

means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and to replace them with debits for the cash paid to the pension fund and pensioners and any such amounts that are payable but remain unpaid at the year end.

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

The figures that are used to account for the scheme are commissioned annually from the Staffordshire County Council Pension Fund actuary.

Discretionary Benefits

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

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period (31 March) and the date when the Statement of Accounts is authorised for issue. Two types of events can occur:

Adjusting Events

Those events that provide evidence that conditions existed at the end of the reporting period that would require accounting for – the Statement of Accounts is adjusted to reflect such events.

Non-adjusting Events

Those events that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and either their estimated financial effect or a statement that such an estimate cannot be made reliably.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts however the S.151 officer will advise the auditor in writing of any material events.

FINANCIAL INSTRUMENTS

Financial Instruments are defined as any contract that gives rise to a financial asset of one body and a financial liability of another. Many assets and liabilities are collectively financial instruments even where separately identified on the balance sheet.

Financial Assets

The City Council has a number of investments that are financial assets which are classified on the basis of the authority's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The three main classes of financial assets are: .

- Amortised Cost
- Fair Value through Profit or Loss (FVPL), and
- Fair Value through Other Comprehensive Income (FVOCI)

Amortised Cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are subsequently carried at their amortised cost except for short-term receivables with no stated interest rate which are measured at invoiced cost. Annual credits to the Financing and Investment Income and Expenditure line in Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for that instrument.

Where the City Council loans to organisations at less than market rates (soft loans) that are not material they are disclosed in a note to the financial statements, but no entries have been made in the Comprehensive Income and Expenditure Statement. Where a loan is material and has been treated as a soft loan and carried at fair value in the accounts. Any loss is debited to the appropriate service in the Comprehensive Income and Expenditure Statement with the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. The basis for the percentage rate used is a combination of the base rate at the time the loan was granted and an allowance for the risk that the loan may not be repaid.

Any gains and losses that arise on the de-recognition of the asset, are credited / debited to the Comprehensive Income and Expenditure Statement.

Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Values are based on the following principles:

- instruments with quoted marked prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis
- equity shares with no quoted market prices – professional estimate

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.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair Value through Other Comprehensive Income

The Council has elected to designate investments in equity instruments to FVOCI where they are not held for trading. Movements in fair value will be accumulated in the Financial Instruments Revaluation Reserve until the asset is derecognised, at which point the net gain or loss would be transferred to the General Fund.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, and where relevant FVOCI, either on a 12-month of lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place borrower could default on their obligations. Where the credit risk has increased significantly since an

instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council will assess losses for the portfolio on a collective basis where a significant number of small loans are made at less than market rates to individuals and it does not have reasonable and supportable information available without undue cost or effort to support the measurement of lifetime expected losses on an individual basis.

Where the authority has a commitment to make loans at some point in the future, this commitment is not reflected in any accounting entries until the lender actually draws down some or all of the facility. A provision might be required to reflect potential defaults of the borrower were to exercise their drawdown rights.

Financial Liabilities

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

The City Council may pay off or replace loans earlier than originally planned as part of its debt management strategy, dependent upon prevailing market conditions, risk and financial benefits that may accrue to the Council.

One of the mechanisms for managing long term loans is the restructuring of the debt portfolio. This may be carried out in order to achieve a more balanced debt profile, to change the volatility of existing debt, to amend cash flows or to reduce financing costs. Debt rescheduling may give rise to a payment to the lender (a premium) or a payment to the borrower (a discount).

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

GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant / contribution, and there is reasonable assurance that the monies will be received. Where conditions are outstanding, the amounts are treated as either capital or revenue receipts in advance, forming part of short or long term creditors.

Service specific revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) form part of Taxation and Non-Specific Grant Income at the foot of the Comprehensive Income and Expenditure Statement.

HERITAGE ASSETS

The City Council's heritage assets are situated at various locations throughout the city but principally at the four main museums.

- Potteries Museum and Art Gallery – containing nationally important ceramics, the Staffordshire Hoard; the largest and most valuable Anglo-Saxon treasure ever found and a WWII Spitfire.
- Gladstone Pottery Museum – the only complete Victorian pottery factory from the days when coal-burning ovens made the world's finest bone china.

- Etruria Industrial Museum - the last steam powered potters' mill in Britain.
- Ford Green Hall - a 17th century timber-framed farmhouse furnished with an outstanding collection of textiles, ceramics and furniture.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the City Council's accounting policies on property, plant and equipment, as amended and include intangible heritage assets. A level of £10,000 has been established for assets to be valued. Any assets less than this level are valued in line with the average increase in assets above £10,000.

The City Council's collections of heritage assets are reported in the balance sheet at valuations where the cost of obtaining professional valuations has not been prohibitive.

Ceramics, Porcelain and Fine Arts

The ceramics and porcelain artefacts and fine art collection, which includes paintings (both oil and watercolour), prints, sculptures and sketches are deemed to have indeterminate useful lives and a high residual value therefore depreciation is not charged.

Acquisitions are initially recognised at cost and donations are recognised using a valuation provided by an external valuer.

Machinery, Equipment and other Artefacts from the Pottery Industry

The City Council considers that obtaining valuations for the vast majority of machinery, equipment and other artefacts and ephemera from the pottery industry exhibited would, due to the diverse nature of the assets held and the lack of comparable values, involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements and consequently the City Council does not specifically recognise this collection of heritage assets on the balance sheet. Where acquisitions take place, these are initially recognised at cost or where bequeathed or donated, at nil consideration.

Archaeology

The Council does not consider that reliable cost or valuation information can be obtained for the items held for the majority of its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently the City Council does not recognise these assets on the balance sheet

Property

The City Council considers the Gladstone Pottery Museum, Etruria Industrial Museum and Ford Green Hall buildings as heritage assets and are held on the balance sheet in accordance with the City Council's accounting policies on property, plant and equipment.

Heritage Assets – General

Where there is evidence of impairment the carrying amounts of heritage assets will be reviewed e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for, where applicable, in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the City Council e.g. software licenses, is capitalised when it brings economic or service benefits for more than one year. Intangible fixed assets are initially recognised at cost. Thereafter, where an active market exists for the asset they are carried at fair value, otherwise they are included in the balance sheet at historic cost less any accumulated amortisation and impairment.

Assets of a finite life are amortised on a straight line basis over the life. For assets of an infinite life they are assessed for impairment. The City Council does not amortise assets in the year of acquisition, but a full year's charge is made in the year of disposal.

INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has registered subsidiary companies in respect of a Fortior Homes, Unitas Stoke-on-Trent, Stoke EnergyCo, STCC RP and Stoke on Trent Futures. Subsidiary companies are consolidated as part of the group accounts only when transactions are considered material. The Council has no material interests in companies and other entities that have the nature of associates and jointly controlled entities. In order to align group entities accounting policies to those used by the Council and ensure consistency of accounting treatment across the group, the following principles have been adopted:

- Consolidation of Subsidiaries - Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated.
- Alignment of accounting framework and policies - Where group organisations use different accounting policies to the Council, their accounts have been restated to align their accounting policies with those of the Council where the effect of not doing so would be material to the reader's interpretation of the accounts.
- Unrealised profits from intra-group transactions - Any unrealised profit reflected in the carrying amount of property, plant and equipment and inventory arising from trading between the Council and its group companies will be eliminated to avoid the double counting of gains.
- Company losses Accounting Treatment - The Group Comprehensive Income and Expenditure Account includes the profits / losses arising in each of the wholly owned subsidiary companies. Profits/losses from wholly owned subsidiaries are included in Group Surplus or Deficit on Provision of Services from ordinary trading activities.

INVESTMENT and SURPLUS PROPERTY

Investment property is held solely to earn rentals and / or for capital appreciation and are measured initially at cost and subsequently at fair value. Investment Properties are not depreciated but are revalued annually. Gains and losses on revaluation and disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The gains and losses are not permitted by statute to impact on the General Fund Balance so are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Costs and Income received in relation to investment properties is credited to the Financing and Investment Income line and result in a gain/loss to the General Fund Balance.

Assets identified as 'of indeterminate use' are classified as surplus assets within Property, Plant and Equipment. Housing related assets and assets held to provide economic regeneration are classified as operational properties based on their principal function being service related.

Finance Leases

The City Council as lessee:

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to pay the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate on interest on the remaining balance of the liability. Finance charges are recognised in calculating the surplus / deficit for the year. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rentals are expensed in the period in which they are incurred.

The City Council as lessor:

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is treated as a disposal. Amounts due from lessee is are recorded as a long-term debtor at the amount of the City Council's net investment in the lease. Where income received under leases qualifies under the definition of capital receipts, the element of finance lease payments relating to the write-down of the debtor's obligation will be treated as a capital receipt applied to accounting periods, so to reflect a constant periodic rate of return on the City Council's net investment outstanding in respect of the leases.

Operating Leases

The City Council as lessee:

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

The City Council as lessor:

Where the Council grants an operating lease, the asset is retained in the Balance Sheet. Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

MINIMUM REVENUE PROVISION

The Council set aside from its General Fund Revenue Account a regular provision for repayment of debt. There is no longer a separate requirement to set aside a minimum revenue provision from the Housing Revenue Account.

MRP relating to pre 2008 debt liability will be charged at the rate of 2% straight line. Post 2008 MRP reflected within the debt liability at the end of the financial year will be subject to MRP based on Asset Life charged over a period which is reasonably commensurate with the estimated useful life of the asset (or group of assets) as determined by professional judgement. Where the underlying borrowing is by way of a finance lease or service concession arrangement (PFI scheme), additional revenue provision may be set aside based on the capital repayment plan of the agreement.

The City Council may apply an additional voluntary contribution, including capital receipts or revenue contributions, to reduce its debt liability. In instances where the Council incurs borrowing in order to lend funds to a third party will treat any advance as "Serviced debt" and therefore no MRP will be set-aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.

NON-CURRENT ASSETS HELD FOR SALE

Classified as Non-current assets where the sale is highly probable, the asset is available for immediate sale in its present condition and the City Council is committed to and actively marketing the sale and which is normally expected to qualify for recognition as a completed sale within one year from the date of classification. The assets is measured at the lower of their previous carrying amount or fair value less costs to sell. Fair value is open market value including alternative uses. Depreciation is not charged on Assets Held for Sale.

The gain or loss on disposal of an asset is the difference between the sale proceeds and the carrying amount and is recognised in Other Operating Expenditure within the Comprehensive Income and Expenditure Statement. Where the asset no longer meets the criteria it is 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 Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for the operation and management of services and reporting financial performance.

PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

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

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

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

PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

PFI and service concessionary transactions are treated in the City Council's accounts in accordance with the Code, based on IFRIC12 (control of asset). Non-current assets related to these contracts and recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The following PFI schemes (or similar) are deemed to be controlled and the assets recognised as operational as a consequence:

- Schools - assets transferred to Transform Schools (Stoke) Limited
- Street Lighting - assets transferred to Tay Valley Lighting (Stoke-on-Trent)
- Bentilee District Centre - assets transferred to Bentilee HUB (Project Company)
- Hanford Waste - assets transferred to Hanford Waste Service Limited
- Extra Care – assets transferred to Sapphire Extra Care Limited

The amounts payable to the PFI operators each year (known as the unitary charge) are analysed into five elements:

- fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost - an interest charge of an agreed % on the outstanding balance sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement;
- contingent rent - increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement;
- lifecycle replacement costs (regular major planned refurbishments) - recognised as non-current assets on the balance sheet;
- payment towards liability - applied to write down the balance sheet liability towards the PFI operator.

PROPERTY PLANT AND EQUIPMENT

Recognition

Classified as assets that have physical substance and provide benefits and are expected to be used during more than one financial year.

Expenditure on the acquisition, creation or enhancement of property, plant and equipment has been capitalised on an accruals basis where it is probable that the future economic benefits or service potential associated with the item will flow to the entity and the cost of the item can be measured reliably.

This excludes routine repairs and maintenance, which is charged directly to the service revenue accounts.

The Council has set an administrative capital de minimis levels:

- Land and Buildings £15,000
- Equipment £5,000
- Schools Capital £2,000

This does not preclude expenditure below these levels being recognised particularly those relating to a number of assets the costs of which are collectively above the de minimis levels e.g. computer equipment.

Where expenditure is determined not to add value to an asset and the asset is held at fair value the expenditure is treated as impairment and charged to the Comprehensive Income and Expenditure Statement in the year incurred.

Measurement and Valuation

Property, plant and equipment is initially measured at cost, being costs attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. Thereafter the assets are valued, dependent upon their class, as follows:

- Infrastructure and community assets – depreciated historic cost less any impairment loss where applicable;
- assets under construction – historic cost;
- Investment properties and surplus assets – fair value under IFRS 13
- all other classes of asset – current value.

Current value is assessed as:

- council dwellings – existing use value - social housing (EUV-SH) with an adjustment factor (Vacant Possession Adjustment Factor) applied to the open market value to recognise the continuing occupation of a secure tenant;
- specialised assets for which there is no active market – depreciated replacement cost;
- non-property assets with short useful lives and/or low values – depreciated historic cost as a proxy for fair value;
- other properties - existing use value;

The asset values for property related assets are based upon certificates issued by the City Council's Valuation Officers and independent external valuers. Revaluations will be made with sufficient regularity to ensure that the carrying amount reflects the fair value at the end of the reporting period. Valuations shall be carried out at intervals of no more than five years.

Revaluation gains or losses arising are taken to the Revaluation Reserve except where the asset has been subject to a previous revaluation or impairment loss in which case all or part of the gain/loss is credited/debited to the Comprehensive Income and Expenditure Statement.

Asset Components are considered for recognition where individual buildings are revalued to a fair value that is greater than £1m, have different useful lives and / or depreciation bases and the depreciation charges materially affect the statement of accounts.

Depreciation

The City Council does not charge depreciation in the year of acquisition, but does charge a full year's depreciation in the year of disposal. The general principle being that the value of assets is allocated to services over the periods expected to benefit from their use.

Property, plant and equipment are depreciated using the straight line method, over the useful economic lives as advised typically:

- Infrastructure 20 - 40 years
- Buildings 20 - 60 years
- Vehicles, Plant and Equipment 5 – 20 years

Land is considered to have an indefinite useful life and is not depreciated but is subject to impairment review.

Impairment

The City Council undertakes an annual assessment as to whether any indication of impairment of its assets exists or that any impairment loss previously recognised may have decreased.

Where a material impairment is identified this is accounted for by writing off the impairment charge against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the Comprehensive Income and Expenditure Statement.

Where an impairment reversal is identified it is credited to the Comprehensive Income and Expenditure Statement to the extent that the carrying value of the assets returns to that which would have been the case if no previous impairment had occurred. Any excess gain over this amount is treated as a revaluation gain and credited to the Revaluation Reserve.

Disposals and asset derecognition

When an asset or significant component is disposed of, derecognised, replaced or decommissioned the gain or loss on disposal, being the difference between the net disposal proceeds, if any, and the net carrying amount of the asset, is recognised in the Comprehensive Income and Expenditure Statement. Any revaluation gains in the Revaluation Reserve related to the asset or part thereof are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposal is payable to the Government. As a result of changes in legislation, as set out in amendments to the Local Government Act 2003, the City Council also has the option to retain 100% of some receipts (Non Right-to-Buy and 1-4-1 replacement) provided that they are used for the provision of affordable housing, regeneration projects or the repayment of housing debt. The balance of receipts is credited to the Usable Capital Receipts Reserve, and, subject to any direction by central government, can then only be used to finance new capital investment or reduce the City Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Usable Capital Receipts Reserve via the Movement in Reserves Statement.

Revaluation on Disposal of Housing Assets

HRA assets disposed of under Right to Buy (RTB) legislation continue to be valued as operational assets up to the point of disposal. Once disposal takes place there is no revaluation to the discounted RTB value. This approach is in line with the MHCLG Guidance on Stock Valuation for Resource Accounting which authorities in England are required to follow.

PROVISIONS

Provisions are only recognised when the City Council has a present obligation as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made however the timing or the actual amount involved is uncertain. Where the obligation is expected to be settled after more than one year and the effect of the time value of money is material, the amount of a provision reflects the present value of the expenditure expected to be required to settle the obligation.

Estimated settlements are reviewed at the end of each financial year, where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made); the provision is reversed and credited back to the relevant service.

RESERVES

The City Council sets aside specific amounts as reserves for future policy purposes or to cover future events / contingencies. When the expenditure to be financed from reserves is incurred, it is charged to the appropriate service revenue account and included in net cost of services in the Comprehensive Income and Expenditure Statement. The corresponding amount is then transferred from the appropriate reserve account back into the General Fund to ensure that there is no further charge on the council tax for that year. The City Council's usable reserves include both usable earmarked reserves, which are set aside for specific purposes; and the General Reserve, which is set aside for future general use.

The City Council has a number of unusable reserves that are not able to be used to provide services. These represent unrealised gains and losses and adjustments between accounting basis and funding basis under regulation.

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 fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the City Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, amounts charged are reversed out of the General Fund Balance as a Movement on Reserves to ensure there is no impact on the level of Council Tax.

SCHOOLS - FOUNDATION SCHOOLS AND ACADEMIES

In accordance with the "Schools Organisation" (Prescribed Alteration to Maintained School) (England) Regulation 2007, the freehold title to land and buildings occupied by any foundation school, is transferred from the City Council to the governing body of the school, together with any contractual obligations and benefits. To determine the Balance Sheet treatment of Foundation School assets, the City Council has considered who bears the risk and rewards of ownership. It is the City Council's view that land is foundation school responsibility and is derecognised from the Councils balance sheet. Where the Foundation School building is part of the PFI scheme, the accounting treatment is in line with IFRIC 12: Service Concession Arrangements and is recognised on the balance sheet for the period of the PFI contract.

For Academies, it is the City Council's view that academy schools are an independent entity and bear a significant proportion of the risks and rewards relating to the school, hence the assets and liabilities of the academies are not consolidated into the City Council's Balance Sheet.

The City Council derecognises all of the assets and liabilities in the financial year applicable to the date specified in the academy conversion order for the schools to convert. Derecognition is applied in full and charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the financial year in which they were derecognised.

VAT

VAT is included within the accounts only to the extent that it is irrecoverable. The City Council is able to recover VAT on nearly all its expenditure (input tax) and in addition, accounts for VAT on its income (output tax) where applicable.

VOLUNTARY AIDED AND VOLUNTARY CONTROLLED (FAITH) SCHOOLS

Schools governing bodies are separate entities to the Council but (with the exception of academies and free schools) are considered to be part of the council and their activities are reported within the Comprehensive Income and Expenditure Statement. Non-current assets are recognised on the balance sheet as they are considered to be within the scope of IFRIC 12: Service Concession Arrangements and controlled by the Council under that contract.

SECTION 2**ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED**

The 2019/20 Accounting Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

For adoption in 2020/21 the following accounting standard changes and their impact on the Council are shown in the table below:

New Accounting Standards	
IFRS 16 Leases	<p>The new leasing standard removes the distinction between finance and operating leases for lessees. It requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments.</p> <p>As at the 1st April 2020, it is estimated that the adoption IFRS 16 Leases will create a Right of Use asset of £1.3m with a corresponding lease liability.</p> <p>The impact on the general fund balance is expected to be minimal, with the removal of operating lease payments being replaced by interest (£0.05m) and a Minimum Revenue Provision charge (£0.4m), estimated to be of an equal value.</p>
Narrow Scope Amendments to International Financial Reporting Standards	
IFRS 3 Business Combinations	<p>Amendments to clarify the definition of a business</p> <p>The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.</p> <p>These amendments are not expected to have any impact on the Council.</p>
IFRS 7 Financial Instruments: Disclosures IFRS 9 Financial Instruments IAS 39 Financial Instruments: Recognition and Measurement	<p>Amendments regarding pre-replacement issues in the context of the Interbank Offer Rate (IBOR) reform</p> <p>The amendments modify specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by IBOR reform and require additional information being provided to investors about their hedging relationships which are directly affected by these uncertainties.</p> <p>These amendments are not expected to have any impact on the Council.</p>
Amendments to References to the Conceptual Framework in IFRS Standards	<p>Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.</p> <p>The revised Conceptual Framework introduces the following main improvements:</p>

	<ul style="list-style-type: none">• New concepts on measurement, presentation and disclosure;• Guidance on when assets and liabilities are removed from financial statements;• Updated definitions of an asset and a liability and criteria for their inclusion within the financial statements;• Clarification of prudence, stewardship, measurement uncertainty and substance over form. <p>The boards aim was to develop a more coherent set of concepts, not to increase or decrease the range of assets and liabilities recognised.</p> <p>These amendments are expected to have a minimal impact on the Council.</p>
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Open Report

City of
Stoke-on-Trent

Audit Committee

28 May 2020

Publication of Pre-Audit Statement of Accounts 2019/20

Report of	City Director
Report Author	Nick Edmonds, Assistant Director - Finance and S151 Officer Paul Boden, Strategic Manager – Corporate Finance
Type of Decision	Regulatory Decision
Cabinet Member	Cabinet Member for Corporate Resource, Strategy and Partnerships
Wards Affected	No Ward Implications

Stronger Together Priorities and how they are applicable:

An innovative and commercial council, providing effective leadership to help transform outcomes

A clear and transparent work programme provides continued assurance to stakeholders and those considering engaging with the council that the Audit Committee is discharging its duties in line with its terms of reference as set out within the Constitution.

1.0 Reason and Purpose of Report:

1.1	This report is to provide an update on progress in relation to the draft Statement of Accounts.
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2.0 Recommendation(s):

2.1	That the contents of the update be noted and that the Chair will advise the Committee of the publication of the draft Statement of Accounts.
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3.0 Summary of Main Points:

3.1	<p>In response to the current pandemic, the Ministry of Housing, Communities and Local Government (MHCLG) confirmed the details of the changes made to the Accounts and Audit Regulations 2015 in a letter to authorities on 3 April 2020.</p> <p>The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) have extended the absolute dates by which the council should to publish their draft and audited Statement of Accounts.</p>
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3.2	<p>Draft Accounts</p> <p>To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June has been removed. Instead Local authorities must commence the public inspection period on or before the first working day of September 2020. This means that draft accounts must be confirmed by the responsible finance officer and published by 31 August 2020 at the latest, previously the date was 31 May.</p>
3.3	<p>Audited Accounts</p> <p>The statutory audit deadline for 2019/20 for all local authorities changes from 31 July to 30 November 2020. In the event that the audit is not completed by 30 November, the council must publish that fact and the reasons for the delay in publication.</p>
3.4	<p>Councils have the ability to publish their draft and audited accounts earlier than the revised statutory deadlines which the council still plans to do in order to support local democracy and public accountability.</p>
3.5	<p>Current Draft Accounts Position</p> <p>The production of the accounts are well advanced but are not complete by the submission dates of the committee. The principal delays are the production of the Actuary's Pension report which has been delayed due to the valuation of the fund within the current environment. Secondly the council needs to include more disclosure within the Narrative Statement in respect of its actions and expectations in response to the Covid-19 pandemic. The narrative statement work is currently drafted and being worked upon. In respect of the pension information the council has been advised that the report from the actuary is expected to be received in early June, thereafter the accounting transactions can be included within the statement of accounts.</p>
3.6	<p>External Audit Position</p> <p>There have been revisions to the accounting dates for the NHS which have also been pushed back. The audits for the NHS are undertaken by Ernst and Young (EY) in the first instance which would most likely mean a delay in their planned start date with the council of 8 June. The council has agreed that this date can be moved to 22 June to assist both the auditors and the council in preparing for the audit. Consequently, the council expects to publish its draft accounts no later than 19 June.</p>
3.7	<p>In the event that the draft Statement of Accounts can be produced earlier and published they will be, and the Audit Committee through the Chair will be advised of the publication and the published public inspection dates.</p>

Technical Appendix:

List of Background papers <i>(information not already published):</i>	
None	
List the appendices included as part of this report:	
N/A	

Implications taken into consideration in this report *(Please list as separate appendix if required):*

Financial and Commercial:	
There are no financial implications associated with this report.	
Legal:	
There are no legal implications associated with this report.	
Human Resources:	
There are no Human Resources implications associated with this report.	
Public Health and Public Services (Social Value) Act 2012:	
There are no Public Health and Public Services (Social Value) Act 2012 implications associated with this report.	
Equality Impact or Environmental Impact Assessments:	
There are no Equality Impact or Environmental Impact Assessment considerations associated with this report.	
Key Risks:	
The key risk to be considered is that the Committee does not receive the correct information to allow it to meet its terms of reference. The consequence of which is that opportunities to improve the governance arrangements are not identified or acted upon.	

Options Considered:	
1.	PREFERRED OPTION – the City Council has a statutory responsibility to produce, and publish, its annual statement of accounts.

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Open Report

City of
Stoke-on-Trent

Audit Committee

28 May 2020

Publication of Draft Annual Governance Statement

Report of	City Director
Report Author	Nick Edmonds, Assistant Director - Finance and S151 Officer Clare Potts, Strategic Manager – Audit and Fraud
Type of Decision	Regulatory Decision
Cabinet Member	Cabinet Member for Corporate Resource, Strategy and Partnerships
Wards Affected	No Ward Implications

Stronger Together Priorities and how they are applicable:

An innovative and commercial council, providing effective leadership to help transform outcomes

A clear and transparent work programme provides continued assurance to stakeholders and those considering engaging with the council that the Audit Committee is discharging its duties in line with its terms of reference as set out within the Constitution.

1.0 Reason and Purpose of Report:

1.1	This report is to provide an update on progress in relation to the draft Annual Governance Statement.
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2.0 Recommendation(s):

2.1	That the contents of the update be noted and that the Chair will advise the Committee of the publication of the draft Annual Governance Statement.
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3.0 Summary of Main Points:

3.1	<p>In response to the current pandemic, the Ministry of Housing, Communities and Local Government (MHCLG) confirmed the details of the changes made to the Accounts and Audit Regulations 2015 in a letter to authorities on 3 April 2020.</p> <p>The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) have extended the absolute dates by which the council should to publish their draft and audited Statement of Accounts.</p>
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3.2	<p>The Annual Governance Statement (AGS) explains what the governance framework is and gives a brief explanation of the component parts. It summarises the key processes for delivering good systems of control, governance and stewardship and indicates who is responsible for what. It also addresses how Stoke-on-Trent City Council intends to monitor, develop and improve its governance arrangements for the future. Progress is being made on the production of the AGS for 2019/20. The latest guidance issued by Chartered Institute of Public Finance and Accountancy states that although the AGS should reflect governance arrangements for normal operations, it is also essential that the AGS reflects the impact of the Covid-19 pandemic on the council's governance arrangements and where necessary, a second conclusion on the adequacy of governance arrangements during this period could be included to make clear the impact. Work is therefore being undertaken to ensure the AGS reflects the current position and reflect the considerable work that has been undertaken in response the pandemic.</p>
3.3	<p>In the event that the draft Annual Governance Statement can be produced earlier, and published, it will and the Audit Committee, through the Chair, will be advised of the publication.</p>

Technical Appendix:

List of Background papers <i>(information not already published):</i>	
None	
List the appendices included as part of this report:	
N/A	

Implications taken into consideration in this report *(Please list as separate appendix if required):*

Financial and Commercial:	
There are no financial implications associated with this report.	
Legal:	
There are no legal implications associated with this report.	
Human Resources:	
There are no Human Resources implications associated with this report.	
Public Health and Public Services (Social Value) Act 2012:	
There are no Public Health and Public Services (Social Value) Act 2012 implications associated with this report.	
Equality Impact or Environmental Impact Assessments:	
There are no Equality Impact or Environmental Impact Assessment considerations associated with this report.	
Key Risks:	
The key risk to be considered is that the Committee does not receive the correct information to allow it to meet its terms of reference. The consequence of which is that opportunities to improve the governance arrangements are not identified or acted upon.	

Options Considered:	
1.	PREFERRED OPTION – the City Council has a statutory responsibility to produce an Annual Governance Statement alongside its Statement of Accounts.
2.	There are no alternative options that can be considered. Consideration of the AGS by the Audit Committee is necessary in order to comply with the Accounts and Audit Regulations 2015

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Open Report

City of
Stoke-on-Trent

Audit Committee

28 May 2020

Internal Audit Plan 2020/21

Report of	Section 151 Officer
Report Author	Nick Edmonds, Assistant Director - Finance and Section 151 Officer Clare Potts, Strategic Manager - Audit and Fraud
Type of Decision	Regulatory Decision
Cabinet Member	Cabinet Member for Corporate Resource, Strategy and Partnerships
Wards Affected	No Ward Implications
Stronger Together Priorities and how they are applicable:	
An innovative and commercial council, providing effective leadership to help transform outcomes	
<p><i>How does this fit?</i></p> <p>The mission of internal audit is “To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.” [Public Sector Internal Audit Standards]. Stoke on Trent city council's internal audit charter states that Internal Audit supports the Authority in the effective delivery of services.</p> <p>The results derived from completing the attached risk based plan of work for the forthcoming year will contribute to the overall annual internal audit opinion and by reporting on the outcome of this work assists the Audit Committee and Senior Management to discharge their roles of accountability and stewardship which represents a key element within the Authority's governance framework.</p>	

1.0 Reason and Purpose of Report:	
1.1	The purpose of this report is to update members on the approach taken in preparing an internal audit plan for 2020/21 and to present the areas for audit during the coming year.
1.2	In considering the areas proposed for audit, the Audit Committee is able to consider the main issues arising, seek assurance that action has been taken where necessary and be assured that the audit plan is being delivered. In supporting this approach the Committee demonstrates compliance with its terms of reference by receiving details of on-going Internal Audit work via regular monitoring reports.
1.3	The plan has been designed based on a comprehensive risk assessment. This has involved discussions with all Directors and Assistant Directors through Operational Business Meetings as well as a review of all available risk registers. A risk assessment has been undertaken for all areas raised to assess the need for inclusion in the plan.
1.4	The planning and delivery of a robust internal audit service ensures that an annual opinion and overall level of assurance can be provided to those charged with governance, thereby complying with constitutional requirements and sector standards.

2.0 Recommendation(s):

2.1	That members consider the draft plan at Appendix 1.
2.2	That in accordance with the Committee's terms of reference, the Internal Audit Plan be approved.
2.3	That the Committee agree to receive regular updates on the delivery of the assignments within the plan and on the implementation of actions arising.

3.0 Summary of Main Points:

3.1	The Accounts and Audit Regulations include the statutory requirement for the provision of an adequate and effective internal audit function. Compliance with Public Sector Internal Audit Standards (PSIAS) is required to demonstrate an appropriate standard of audit provision.
3.2	The Annual Internal Audit Plan for 2020/21 outlines the audits that are planned for the coming financial year and is built on a risk based approach. The results of this work will contribute to the annual opinion, which will then be included within the Annual Governance Statement (AGS).
3.3	Discussions regarding future internal audit requirements form part of regular dialogues with Directors, their management teams, and the Assistant Director Finance (as the Section 151 officer). In addition on-going consultation with External Audit is recognised as an integral part of Internal Audit's approach to a successful service delivery.
3.4	In accordance with the above Standards, a report will be presented on a quarterly basis to the Audit Committee, summarising the work of Internal Audit and the key findings of that work. That work is drawn from the annual work plan derived through a thorough planning process.

Technical Appendix:

List of Background papers <i>(information not already published):</i>
None.
List the appendices included as part of this report:
Appendix 1 – Proposed Internal Audit Plan 2020/21 Appendix 2 – Internal Audit Charter

Implications taken into consideration in this report *(Please list as separate appendix if required):*

Financial and Commercial:
<p>The work outlined for 2020/21 will be carried out within the approved budget for Internal Audit. The financial implications resulting from the recommendations made within audit reports will be highlighted within individual reports wherever possible.</p> <p>It is the responsibility of managers receiving audit reports to take account of these financial implications, and to take the appropriate action.</p> <p>There are no direct financial implications arising from this report.</p>
Legal:
<p>The Accounts and Audit (England) Regulations 2015, state that “A relevant authority [the City Council] must 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.” (para 5(1)).</p> <p>Section 151 of the Local Government Act 1972 states that every local authority should make arrangements <i>for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs</i>. CIPFA has defined ‘proper administration’ in that it should include ‘compliance with the statutory requirements for accounting and internal audit’.</p> <p>The activities of Internal Audit are planned in accordance with the Accounts and Audit Regulations which place a duty upon the head of internal audit to report to members on a regular basis. By acting upon recommendations within internal audit reports, the council is demonstrating its commitment to maintain an adequate and effective system of internal control, as required by these regulations. Satisfactory delivery of the audit plan assists the Assistant Director – Finance, in discharging his duties under section 151 of the Local Government Act 1972.</p>
Human Resources:
There are no Human Resource issues contained within this report.
Public Health and Public Services (Social Value) Act 2012:
There are no issues related directly with Public Health or Public Services Act contained within this report.
Equality Impact or Environmental Impact Assessments:
There are no Equality Impact or Environmental Impact issues associated with the report.

Key Risks:

The key risk to be considered in considering the attached plan is that the areas proposed for coverage do not sufficiently address the key risks faced by the council and therefore the independent and objective assurance provided by Internal Audit is, or is perceived to be, compromised. The consequence of which is that opportunities to improve the council's system of internal controls, governance framework and the delivery of its objectives are not identified or acted upon.

This risk is managed through a combination of the governance and reporting frameworks within which Internal Audit operates and the overview carried out by this Committee. No risks have been identified that are not within acceptable tolerances. Continual review of the work contained within the audit plan ensures that where necessary adjustments are made to provide the most appropriate coverage.

Options Considered:

1.	Do not produce an annual plan. Whilst this would provide the greatest level of flexibility it would not ensure that audit resources are directed appropriately and does not comply with Public Sector Internal Audit Standards. This option is therefore not recommended.
2.	Have an annual plan. This option is recommended to ensure that finite internal audit resources are directed to the appropriate areas and ensures work undertaken adds value. This approach also complies with the Public Sector Internal Audit Standards requirements and is therefore the recommended option.



Internal Audit Plan 2020/21

Issued: April 2020
Author: Strategic Manager - Audit and Fraud
Stoke-on-Trent City Council

Internal Audit Plan 2020/21

1. Background

- 1.1 The primary purpose of an Internal Audit service is to provide an independent, objective assurance and consulting service to the organisation; and through the efficient delivery of this service seeks to add value and improve the organisation's operations and controls to effectively deliver the council's Strategic Priorities. The council's Internal Audit Charter reflects this and has been reviewed as part of producing the latest internal audit plan. This review has confirmed that the charter remains fit for purpose and no changes are required, it is included at Appendix 2 for information. Internal Audit assists the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) apply to all internal audit service providers, whether in-house, shared services or outsourced. Assessment against the Standards provides assurance that the service is being delivered to a satisfactory level and in conformance to the standards.
- 1.3 The Accounts and Audit Regulations include the statutory requirement for the provision of an adequate and effective internal audit function and they specify that compliance with the relevant standards is required to demonstrate an appropriate standard of audit provision. The requirement to produce an audit plan is specified in the Standards.

2. Risk Based Approach

- 2.1 The internal audit service focuses on the way in which the key risks faced by the services and ultimately the council can be incorporated and addressed through the planned reviews set out in the proposed plan. Directors and their teams continue to review and update their risk registers, and this provides a valuable insight into how risks and therefore controls are managed within the service areas.
- 2.2 In exploring the areas to include within the 2020/21 plan a number of factors have been considered. These include the strategic risks faced by the council and also operational risks that its service areas are facing in the context of the objectives (both strategic and operational) they are striving to achieve. It also includes the controls that are currently in place and therefore the level of internal audit coverage that is appropriate for these areas of the business. A key objective has been to produce a plan that is fully aligned to the council's objectives and perceived risks. This approach acknowledges the ongoing work in developing the council's risk management framework, the maturity of the risk management approach within the council and open and forthright discussions with service managers and senior officers.
- 2.3 A risk assessment methodology continues to be developed in order to better inform the audit planning process. A significant factor within the audit planning process is the recognition and identification of emerging issues at both local and national level. Topical issues are monitored and tracked throughout the year by all members of the Audit Team and, where relevant, highlighted for consideration or review.

- 2.4 In considering areas for inclusion within the plan, the requirements placed upon Internal Audit by external agencies and funding bodies has grown steadily over recent years and has been considered in the allocation of audit resources. This has been factored into the plan based on current known requirements.
- 2.5 The planning and delivery of a robust audit plan ensures that an annual opinion and overall level of assurance can be provided by the Strategic Manager to those charged with governance, thereby complying with constitutional requirements and sector standards. This opinion is one of the elements of the assurance framework which is reported upon in the annual governance statement.

3. Resources

- 3.1 Internal Audit continues to be led by the Strategic Manager - Audit and Fraud. The approved structure consists of
- 2 x principal auditors
 - 3 x auditors
 - 1 x audit technician

The team continues to undertake training and development opportunities to keep their skills and knowledge up to date, along with options to commission specialist external support/advice where appropriate.

- 3.2 In estimating the number of days available for the delivery of the audit plan, the following are taken into account:

Resources 2020/21

Details	Days
6 full time staff x 260 days ¹	1,560
<u>Less</u>	
Leave entitlement	(192)
Public holiday	(54)
Absence Contingency [2.23% of Available Working Days]	(30)
Resource available	1,284

The level of available resource is then allocated between indirect and direct work; the indirect element includes attendance at meetings, assisting and providing responses to Freedom of Information requests, undertaking performance reviews, service improvement projects, data and risk management, training and the on-going management of resources. This has been estimated based on previous years actual time spent.

- 3.3 The net resource available to deploy on direct work has been estimated as follows:

¹ 260 days from 6/4/20 to 4/4/21

Details		Days	Days
Net resource			1,284
Indirect Support	19.9%		(255)
Direct Work:			1,029
Services Provided to External Bodies		140	
Responsive and Pro-Active Fraud Work		90	
Verification Work		45	
Other Planned Work	21.4%		275
Planned Audit Assurance Work	58.7%		754

Available (direct) days will be allocated over the following areas:

- Proactive/Planned assurance
- Grants/Assurance to External Stakeholders
- Advice and support to achieve improvements
- Verification of completed audit recommendations
- Proactive fraud prevention (including the National Fraud Initiative)
- Third Party requests
- Ad hoc requests for assistance/consultancy/investigation

3.5 The following categories have been identified as the basis for inclusion in this year's work plan:-

Categories

- Work identified as still relevant from 2019/20 and in progress at year end.
- Key systems assurance.
- Funding body requirement as requested.
- Priority from risk assessment of service area.
- Management request/Discussions with management.
- Emerging risks / changes to the council's systems and controls.

3.6 Throughout the year the work programme at appendix 1 will be reviewed, and detailed quarterly work programmes produced. Progress will be measured in order to report on the delivery of the audit plan.

3.7 For assurance on key financial systems that have previously been assessed as satisfactory or good, the approach will be to undertake a health-check audit. A health-check provides a snapshot of key aspects and controls of a system, and explores the measures in place to ensure procedures; processes and management are in place to effectively achieve its objectives. This approach is the most efficient way for internal audit to provide assurance on well controlled systems and ensures available resources are used as efficiently as possible.

3.8 As audit resources are finite, it is important to target these resources at areas considered to be high risk (where risk includes potential impact on the delivery of the council's

objectives) and high priority, ahead of medium / low ranked audits. In this way the audit resource will be most efficiently utilised and will produce the greatest benefit. The plan will be regularly monitored and where necessary revised to take into account both unforeseen and new developments. Whilst the audit plan must be detailed enough to identify in advance the specific areas to be audited it must also remain flexible enough to cope with unforeseen events and must reflect the changing risks and priorities of the council. Any variations or developments; significant matters that jeopardise the delivery of the plan or require changes to the plan will be reported to the Audit Committee at the earliest opportunity. Where requests are received to undertake consulting engagements, consideration will be given to their potential to improve the management of risks, to add value and to improve the council's operations.

Proposed Audit Plan 2020/21

Strategic Priority	Area	Directorate
1	Void Property Repairs	Housing & Customer Services
1	Streetcare / Greenspace	Place, Growth & Prosperity
1	Local Authority Bus Subsidy Grant	Place, Growth & Prosperity
1	Local Transport Provision Grant	Place, Growth & Prosperity
1/2/4/5	Locality working	All
1/4	Newcastle-under-Lyme and Stoke-on-Trent Draft Joint Local Plan	Place, Growth & Prosperity
2	Special Guardianship Orders	Children & Family Services
2	Children's Commissioning Compliance	Children & Family Services
2	Early Help Service	Children & Family Services
2	Disabled Facilities Grant	Housing & Customer Services
2	Families Matter Grant	Children & Family Services
2	Public Health Grant	Adult Social Care, Health Integration and Wellbeing
2/3	Foster Care Payments	Children & Family Services
2/3	Leaving Care	Children & Family Services
3	Schools Governance, Financial Monitoring and Reporting Audit (x1)	Children & Family Services
4	Commercial Property Investment Programme	Place, Growth & Prosperity
5	Health & Safety	City Director
5	Budget Management	City Director
5	Business Continuity	All
5	Commercial Review	All
5	Payroll Bureau (Stoke City Council employees only)	City Director
5	Leadership	All
5	Assurance on External Reviews	All
5	IT Audits: <ul style="list-style-type: none"> Disruptive technologies 	City Director

Strategic Priority	Area	Directorate
	<ul style="list-style-type: none"> Information Management & sharing 	
5	Business Transformation Programme	City Director
5	Establishment Audit (x 1)	Place, Growth & Prosperity
5	Financial Services Health-Checks (to cover areas such as Treasury Management, Main Accounting, VAT, Benefit Services, Purchases to Pay and Revenues based on a risk based approach)	City Director
5	Lord Mayors Charity Account	City Director
5	LGPS Contributions Return 2019/20	City Director
5	Schools Financial Value Standard Assurance Statement	Children & Family Services

Strategic Priority Key

1. Work with our communities to make them healthier, safer and more sustainable
2. Support vulnerable people in our communities to live their lives well
3. Enable our residents to fulfil their potential
4. Help businesses to thrive and make our city more prosperous
5. An innovative and commercial council, providing effective leadership to help transform outcomes.

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Internal Audit Charter

<i>Title</i>	<i>Internal Audit Charter</i>
<i>Author</i>	<i>Clare Potts, Strategic Manager - Audit and Fraud, clare.potts@stoke.gov.uk</i>
<i>Date Created</i>	<i>10/09/2014 (Version 1.0)</i>
<i>Version</i>	<i>Version 6.0</i>
<i>Approval</i>	<i>Audit Committee</i>
<i>Description</i>	<i>A definition of Internal Audit's purpose, authority and responsibility</i>
<i>Subject Category</i>	<i>Management</i>
<i>Rights. Protective Marking</i>	<i>Official</i>
<i>Status</i>	<i>Approved (30/05/2018)</i>
<i>Review Date</i>	<i>01/03/2021</i>

1 Introduction

- 1.1 The Internal Audit Charter is a formal statement that defines the purpose, authority and responsibility of Internal Audit. The internal audit charter establishes Internal Audit's position within the organisation; authority, access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit to evaluate and report on the Authority's activities.

2. Statutory Role

- 2.1 The Accounts and Audit Regulations (England) 2015 states that:

"A relevant body shall maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".

Stoke on Trent City Council (The Authority) is a relevant body.

- 2.2 Public Sector Internal Audit Standards, originally issued in April 2013 and updated in April 2017, are mandatory and apply to all public sector internal audit service providers, whether in-house, shared or outsourced and encompass the required elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework.

3. Mission of Internal Audit¹

- 3.1 The mission of the Authority's Internal Audit service is:

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

4. Internal Audit Purpose

- 4.1 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.

- 4.2 In doing this Internal Audit supports the Authority in the effective delivery of services and will implement the following core principles of effective internal auditing¹:

- 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.

¹ As prescribed by the Public Sector Internal Audit Standards

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

4.3 Internal auditors in UK public sector organisations must conform to the Code of Ethics².

4.4 Internal Audit also assists the Audit Committee and senior management to discharge their roles of accountability and stewardship.

5. Scope

5.1 Senior management and officers are responsible for putting in place proper arrangements in accordance with the relevant policies, regulations and best practice to secure the economy, efficiency and effectiveness of the Authority's resources; ensuring integrity, proper stewardship and governance.

5.2 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Authority's governance, risk management and internal processes as well as the quality of performance in carrying out assigned responsibilities to achieve the Authority's stated goals and objectives. This includes evaluating and providing assurance on:

- The reliability and integrity of information and the means used to identify, measure, classify and report such information.
- The systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on the Authority.
- The means of safeguarding assets and as appropriate, verifying the existence of such assets.
- The effectiveness and efficiency with which resources are employed.
- Operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- The governance processes.
- The effectiveness of the Authority's risk management processes.
- Specific operations at the request of the Audit Committee or senior management as appropriate.

5.3 In doing this Internal Audit will:

- Report periodically on its purpose, authority, responsibility and performance relative to its plan.
- Report significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Audit Committee or senior management.
- Perform consulting and advisory services³ related to governance, risk management and control as appropriate for the Authority.

² As prescribed by the Public Sector Internal Audit Standards

³ **Consulting Services:** Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. [Public Sector Internal Audit Standards]

6. Authority

6.1 Internal Audit shall have authority to:

- Enter, at all reasonable times, any City Council premises, property or land.
- Access all City Council and partner records, information, correspondence and data, in whatever format or media, relating to the City Council's activities.
- Access relevant third party records.
- Request and receive such explanations as they consider necessary concerning any matter under examination.
- Require any employee, Member or agent of the City Council to produce or account for any cash, assets or other City Council property under that person's control.

7. Independence & Objectivity

7.1 The Internal Audit service will remain free from interference by any element in the Council including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary independent and objective attitude of mind.

7.2 Internal Audit is positioned within the directorate of the City Director, and is the responsibility of the Strategic Manager - Audit and Fraud. Internal Audit is accountable to the Assistant Director - Finance (the Section 151 Officer) and also has a direct reporting line to the City Director.

7.3 The Strategic Manager - Audit and Fraud must also establish effective communication with, and have free and unfettered access to the City Director, the Chair of the Audit Committee, the Monitoring Officer and the Senior Information Risk Officer.

7.4 Where the Strategic Manager - Audit and Fraud has or is expected to have roles and responsibilities that fall outside of internal auditing⁴; safeguards will be put in place to limit the potential impairments to independence and objectivity. These responsibilities will be regularly reviewed and agreed with the Assistant Director - Finance (the Section 151 Officer) and City Director.

7.5 Internal auditors will have no direct operational responsibility⁵ or authority over any of the activities audited. Accordingly they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair their independent judgment.

7.6 Internal auditors must have an impartial, unbiased attitude and therefore every effort is made to preserve objectivity by ensuring that all internal auditors are free from any conflicts of interest⁶. All potential conflicts of interest are to be disclosed to enable any potential conflict of interest to be avoided.

7.7 The Strategic Manager - Audit and Fraud must confirm to the audit committee, at least annually, the organisational independence of the internal audit activity.

8. Competence

8.1 The Strategic Manager - Audit and Fraud must hold a professional qualification (CCAB, CMIIA or equivalent) and be suitably experienced.

⁴ Corporate Counter Fraud, Insurance and Risk Management.

⁵ Internal auditors will not audit areas in which they have had previous operational responsibilities during the previous 12 months as this may impair their independence and objectivity.

⁶ This will be recorded through a Declaration

8.2 The recruitment processes for Internal Audit provide for the appointment of individuals with the appropriate skills, competencies and qualifications to meet the Standards, either individually or as a combined team. Where officers are members of professional bodies, they must comply with any Continuing Professional Development (CPD) requirements of their membership. On an annual basis each auditor has a Performance Appraisal Review which identifies whether any training needs are required to improve skills.

8.3 The Strategic Manager - Audit and Fraud will obtain competent advice and assistance from external providers where Internal Audit lacks the resources, knowledge, skills or other competencies needed to perform all or part of an engagement.

9. Quality Assurance

9.1 To ensure the quality of audits, a structured review procedure exists before the final report is issued. This provides the opportunity for examination of the report and working papers to ensure that the audit has been conducted to the required standards. In addition, progress is subject to regular review.

9.2 Internal Audit is subject to a continual quality assurance and improvement programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards and on-going performance monitoring, which forms an integral part of the day-to-day supervision.

9.3 An external assessment of Internal Audit is to be carried out at least once every five years by a suitably qualified, independent assessor. The scope of this external assessment is to be agreed by the Strategic Manager - Audit and Fraud and an appropriate sponsor e.g. Section 151 Officer, Chair of the Audit Committee, as well as with the external assessor. The last review was conducted in February 2018.

9.4 The results of quality and assurance programmes and processes against any improvement plans arising out of the internal and external assessments of Internal Audit will be reported to the Assistant Director - Finance (the section 151 officer) and the Audit Committee. A summary of these results will be included in the Annual Internal Audit Report presented to Audit Committee. Instances of non-conformance with the UK Public Sector Internal Audit Standards will be reported to the Audit Committee and considered for inclusion in the annual governance statement.

10. Planning

10.1 The internal audit service is delivered in accordance with a risk-based approach. Consideration is given to the Authority's organisational objectives and priorities, risk registers, local knowledge of the key financial systems, the fraud risks, known strengths and weaknesses within the internal control environment and the requirements of External Audit.

10.2 The plan details the number of person days available for the forthcoming year. As resources are finite, priority is given to those areas with the highest risk. The plan needs also to be flexible, balancing the need to ensure that it is completed to an acceptable level against the number of requests for unplanned work.

10.3 Both the level of audit coverage to be provided and the resources required will be presented to the Audit Committee for approval. Any proposed significant variations to the plan will also be reported to the Audit Committee for approval. Progress against the plan is to be reported to the Audit Committee on a quarterly basis. The overall objective of the plan is to provide an annual opinion on the Authority's control environment.

11. Audit Approach

- 11.1 To ensure a consistent approach to auditing, officers follow the principles laid down in the Audit Manual. This document is regularly reviewed and updated where appropriate.
- 11.2 The Strategic Manager - Audit and Fraud shall ensure that their nominated representatives maintain appropriate levels of integrity and confidentiality during the course of reviews and investigations with due regard to any legislation of laws or codes of conduct applicable at the time including Human Rights Act 1998, Data Protection Act 1998, Freedom of Information Act 2000, General Data Protection Regulations 2018 and The Nolan Committee's Seven Principles of Public Life.
- 11.3 For each planned audit, the auditor will discuss the assignment with the responsible officers to help identify the potential risks and key priorities of the system. Each auditor will look to make practical, risk based recommendations based on their findings and discuss these with management to ensure that agreed actions are formulated to improve a system's control environment, risk management, and its effectiveness and efficiency. This is documented in a standardised audit report.
- 11.4 Effective management of the delivery of the audit plan is essential to ensure that sufficient coverage is achieved. To achieve this consideration is given to the timing of specific audits and also to ensure that work is allocated to those staff with the appropriate skills and experience to complete the task.

12. Fraud and Corruption

- 12.1 Managers are responsible for preventing and detecting fraud and corruption, managing associated risks through effective internal controls and investigating frauds.
- 12.2 Internal Audit will provide support for the Authority's Counter Fraud, Corruption & Error Strategy and Corporate Fraud Team, and will investigate significant matters that are reported to it. Suspicions of fraud or corruption may be reported directly to the Strategic Manager - Audit and Fraud through the Confidential Reporting policy and Counter Fraud, Corruption & Error Strategy.
- 12.3 Decisions to refer matters for prosecution or to the police will be taken by the Strategic Manager - Audit and Fraud in consultation with the Section 151 Officer and relevant senior managers.

13. Related Documents

- 13.1 The following related documents apply:
- Public Sector Internal Audit Standards
 - Constitution (Financial Regulations)
 - Confidential Reporting Policy
 - Counter Fraud, Corruption & Error Strategy
 - Counter Fraud Statement
 - Officers Code of Conduct
 - Records Management Policy

14. References

- 14.1 References to terms within the Public Sector Internal Audit Standards are as follows:
- The Strategic Manager - Audit and Fraud is the Chief Audit Executive.
 - The Audit Committee is the Board.
 - The Senior Management Team (SMT) and those officers, to whom responsibilities are delegated, are senior management.

Open Report

City of
Stoke-on-Trent

Audit Committee

28 May 2020

External Audit Plan

Report of	City Director
Report Author	Nick Edmonds, Assistant Director - Finance and S151 Officer Paul Boden, Strategic Manager – Corporate Finance
Type of Decision	For Information
Cabinet Member	Cabinet Member for Corporate Resource, Strategy and Partnerships
Wards Affected	No Ward Implications

Stronger Together Priorities and how they are applicable:

An innovative and commercial council, providing effective leadership to help transform outcomes

A clear and transparent work programme provides continued assurance to stakeholders and those considering engaging with the council that the Audit Committee is discharging its duties in line with its terms of reference as set out within the Constitution.

1.0 Reason and Purpose of Report:

1.1	This report is to enable Ernst and Young to provide an update in relation to the external audit plan.
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2.0 Recommendation(s):

2.1	That the contents of the update be noted.
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3.0 Summary of Main Points:

3.1	Ernst and Young were appointed as the council's external auditors from the 2019/20 financial year onwards. An update will be provided in respect of the proposals relating to the audit plan for the year ending 31 March 2020.
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Technical Appendix:

List of Background papers <i>(information not already published):</i>	
None	
List the appendices included as part of this report:	
External Audit Plan for the year ending 31 March 2020	

Implications taken into consideration in this report *(Please list as separate appendix if required):*

Financial and Commercial:	
There are no financial implications associated with this report.	
Legal:	
There are no legal implications associated with this report.	
Human Resources:	
There are no Human Resources implications associated with this report.	
Public Health and Public Services (Social Value) Act 2012:	
There are no Public Health and Public Services (Social Value) Act 2012 implications associated with this report.	
Equality Impact or Environmental Impact Assessments:	
There are no Equality Impact or Environmental Impact Assessment considerations associated with this report.	
Key Risks:	
The key risk to be considered is that the Committee does not receive the correct information to allow it to meet its terms of reference. The consequence of which is that opportunities to improve the governance arrangements are not identified or acted upon.	

Options Considered:	
1.	This report is for information only and therefore there are no options to consider.

Stoke-on-Trent City Council

Year ended 31 March 2020

May 2020

DRAFT



Private and Confidential
Stoke-on-Trent City Council
Civic Centre
Glebe St
Stoke-on-Trent, ST4 1HH

28 May 2020

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the 28 May 2020 Audit Committee as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hassan Rohimun
For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Stoke-on-Trent City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Stoke-on-Trent City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Stoke-on-Trent City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2019/20 audit strategy



Overview of our 2019/20 audit strategy

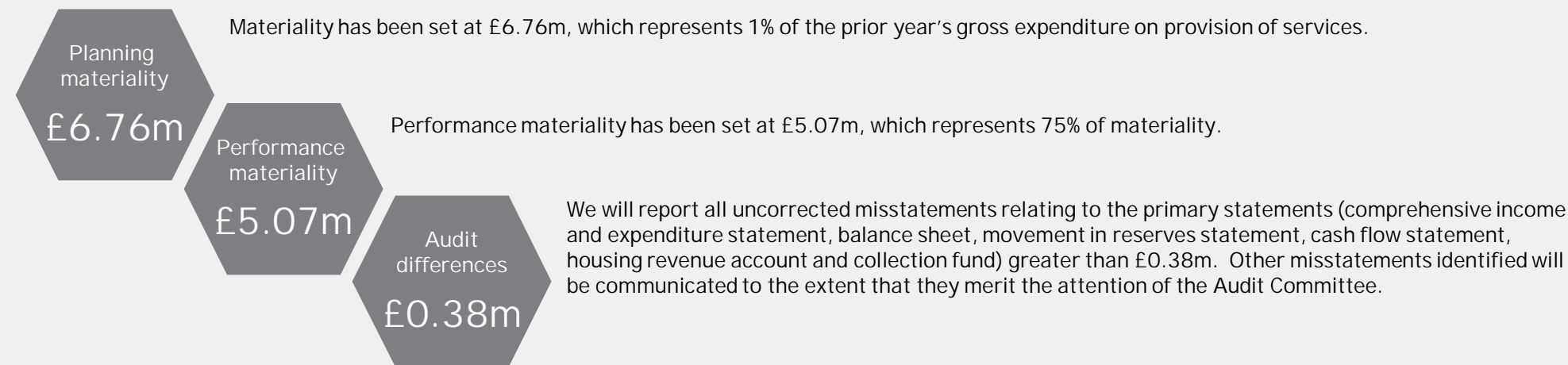
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition – Inappropriate capitalisation of expenditure	Fraud risk/ Significant risk	No change in risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to fraud or error	Fraud risk	No change in risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Group Accounts	Inherent risk	Decrease in risk	There is a risk of misstatements in relation to the incorrect elimination of inter-company balances, alignment of accounting policies for completeness of group disclosures. This has the potential to impact a high number of balances and disclosures throughout the financial statements. In the prior year this was identified as a significant risk as it was the first year of preparing group accounts.
Valuation of Property, Plant and Equipment	Inherent risk	No change in risk	The Council re-values assets to reflect the valuation position at year end. The valuation process is based on professional estimation techniques, which increases the risk of misstatement and error. In the prior year we reported an error which was below our materiality threshold, as a result this year we will engage our valuation experts to assess the valuation basis for the Council's asset base and review the indexation rates used. We will also consider engaging our valuation experts to review the valuation of investment properties.
Valuation of assets and liabilities in the Local Government Pension Scheme	Inherent risk	No change in risk	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates, which increases the risk of misstatement and error. We will assess the assumptions and the valuation of scheme assets used by the actuary in determining the IAS 19 accounting transactions. Our assessment will include a review of the ongoing impact of the McCloud and GMP judgements.
PFI and service concession arrangements	Inherent risk	No change in risk	The Council has a number of PFI and service concession arrangements which include several judgements made by management resulting in the accounting treatment shown in the financial statements. In addition we understand that the contract for the Hanford Waste service Concession arrangement has been renewed.

Overview of our 2019/20 audit strategy

Materiality



Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Stoke-on-Trent City Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Stoke-on-Trent City Council's audit, we will discuss these with management as to the impact on the scale fee.



02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Risk of fraud in revenue and expenditure recognition*</p>	<p>What is the risk?</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>The Council faces significant financial challenges with an outturn overspend for 2019/20 of £2m against budget. During the year the Council received approval for a capitalisation direction to fund £12.9m of revenue expenditure incurred in order to generate on-going savings to the council's budgetary position.</p> <p>We do not consider there to be a heightened risk for the Council's standard income and expenditure streams but we have identified a risk relating to the capitalisation of revenue expenditure in particular:</p> <ul style="list-style-type: none"> • Expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme; and • Expenditure falling within the capitalisation direction. 	<p>What will we do?</p> <p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> • Reviewing the appropriateness of expenditure recognition and capitalisation accounting policies; • Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that move expenditure to PPE balance sheet general ledger codes; • Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised; and • Performing testing of expenditure that has been capitalised under the capitalisation direction to assess if it meets the specified criteria.
<p>Financial statement impact</p> <p>Misstatements that occur in relation to the inappropriate capitalisation of expenditure could affect the expenditure accounts.</p> <p>We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.</p>		

Our response to significant risks (continued)

<p>Misstatements due to fraud or error*</p>	<p>What is the risk?</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>The specific fraud risks identified relate to the inappropriate capitalisation of expenditure when considering revenue and expenditure recognition, which we have set out on the previous slide. As such, we have not repeated those here.</p>	<p>What will we do?</p> <ul style="list-style-type: none"> Identifying fraud risks during the planning stages. Inquiry of management about risks of fraud and the controls put in place to address those risks. Understanding the oversight given by those charged with governance of management's processes over fraud. Consideration of the effectiveness of management's controls designed to address the risk of fraud. Determining an appropriate strategy to address those identified risks of fraud. Performing mandatory procedures regardless of specifically identified fraud risks, including: <ul style="list-style-type: none"> testing of journal entries and other adjustments in the preparation of the financial statements; assessing accounting estimates for evidence of management bias; and evaluating the business rationale for significant unusual transactions.
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Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><u>Valuation and impairment of Property, Plant and Equipment and Investment Property</u></p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings, surplus assets and investment properties in particular.</p> <p>The Council will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. There is also a risk that valuations may not have addressed the impact of Covid-19 on the assumptions used by valuers. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> Consider the work performed by the Council's valuers, including the adequacy of their scope, their professional capabilities and the results of their work; Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; Consider circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used, including the impact of Covid-19; Consider changes to useful economic lives as a result of the most recent valuation; and Test accounting entries have been correctly processed in the financial statements.
<p><u>Group financial statements</u></p> <p>The Council has two subsidiaries (Unitas Stoke-on-Trent Limited and Fortior Homes Limited) the transactions of which are reported in the group financial statements. There is a risk of misstatements in relation to the incorrect elimination of inter-company balances, alignment of accounting policies for completeness of group disclosures. This has the potential to impact a high number of balances and disclosures throughout the financial statements.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> Understanding the process for consolidation, including the completeness of entities being included in the group financial statements; Understanding the transactions undertaken between the two consolidated entities and testing that the correct accounting entries have been made to elimination inter-group transactions; Understanding and testing the differences in accounting policies, ensuring that the correct adjustments are made on consolidation to align accounting policies set for the group; and Reviewing the disclosures in the group accounts to ensure that they are accurate and complete.

Other areas of audit focus (continued)

What is the risk/area of focus?

PFI and Service Concession arrangements

The Council has a number of PFI and service concession arrangements which include several judgements made by management resulting in the accounting treatment shown in the financial statements. The arrangements are supported by complex models to calculate the figures to be included in the financial statements each year.

Whilst we understand there have been no changes in the PFI schemes during 2019/20, the Council extended the contract relating to the Hanford Waste service concession arrangement with effect from the April 2019. The impact of this on the financial statements will need to be carefully considered.

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Staffordshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £566m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. There is a risk that the volatility in the financial markets as a result of Covid-19 may have had a significant impact on pension assets, including the valuation of hard to value assets (such as private equity investments), and therefore net liabilities.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

Our approach will focus on:

- For each of the schemes we will undertake testing of in-year inputs to the accounting models and agree relevant entries in the financial statements to year-end outputs from each of the models.
- In relation to Hanford Waste, we understand that a new contract was signed in April 2019 we will obtain management's assessment of the new contract and ensure that:
 - our current risk rating remains appropriate, or if it needs to be reassessed to a significant risk;
 - it has been correctly assessed as either falling in the remit of IFRC 12 Service Concessions or not;
 - the inputs into any related accounting model are correct and the proposed values and categorisation of figures included in the model are accurate; and
 - whether the accounting treatment and disclosures included in the financial statements are correct.

We will:

- Liaise with the auditors of Staffordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus (continued)

Impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the Council to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the Council's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, we have referenced the potential impact of Covid-19 on risk areas, such as property and pension valuations, but in addition we wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

- Going concern – management's assessment of whether the Council is a going concern will need to consider the impact of the current conditions on the Council's future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- Revenue recognition – there may be an impact on income collection (Council and Business rates) if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to COVID-19.
- Tangible assets – there may be impairment of tangible assets if future service potential is reduced by the economic impact of the virus. The Council may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- Receivables – there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- Holiday and sickness pay – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- Government support – any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- Annual Governance Statement – the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

We will provide an update on the impact of Covid-19 on the Council's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce the financial statements and our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

What will we do?

Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

The revised standard requires:

- auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.



03

Value for Money Risks



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

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

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

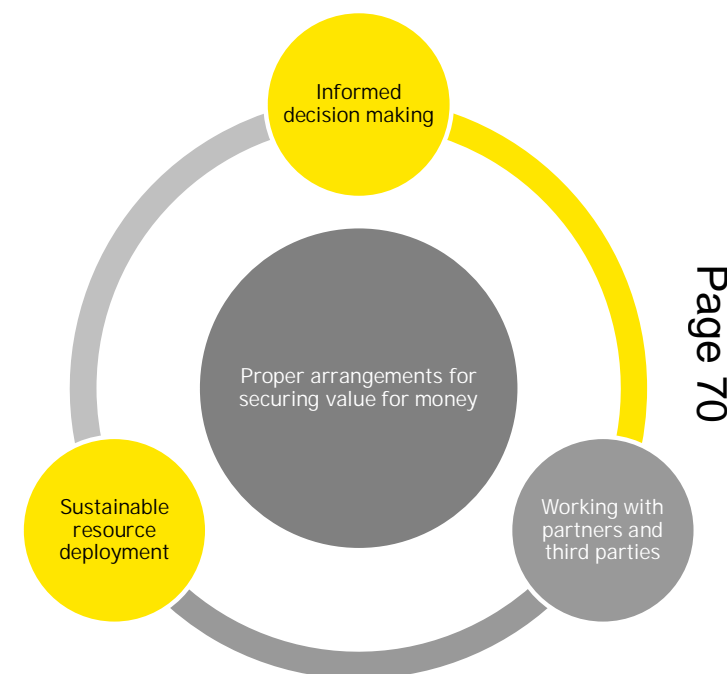
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following pages which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?

Ofsted undertook an inspection of the Council's Children's Services, with their findings being announced in early March 2019. The inspection took place over a two-week period in early February and looked at three areas; the impact of leaders on social work practice with children and families, the experiences and progress of children who need help and protection and the experiences and progress of children in care and care leavers.

In all three areas inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate.

In 2019/20 the Council had taken the following actions:

- Recruited a new Director of Children's Services;
- Devised a Stronger Together Children's Improvement Plan working with local partners;
- Established an independent children's Improvement Board and Children's Improvement Operational Group; and
- Built into the initial 2019/20 budget an additional £2.3 million to support the increased demand for children in care services and the recurrent financial impact of additional costs arising while the services are being transformed will be built into financial projections.

What arrangements does the risk affect?

Take informed decisions / Deploy resources in a sustainable manner

What will we do?

Our approach will focus on reviewing the Council's progress on taking actions to address the findings of the Ofsted report.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>On the 27 February 2020 the Council received the “Medium Term Financial Strategy and Council Tax Setting 2020/21” report the report outlined the need to consider the overall financial sustainability of the authority and highlighted that additional savings of £9.2m will be required in 2020/21 to address underlying financial challenges. The proposed budget was not supported by the Council and at a reconvened meeting on 6 March 2020 the Council agreed to reduce the:</p> <ul style="list-style-type: none"> • savings requirement from £9.2m to £8.3m; • planned contribution to the general reserve from £5.0m to £4.1m; • planned level of general reserve held in 2020/21 from £11.0m to £10.1m. <p>In the opinion of the Council’s Assistant Director - Finance (Section 151 Officer) the concluded that the budget was sustainable. However, he outlined that:</p> <ul style="list-style-type: none"> • It is vital the Council continues to manage its resources well. • The use of reserves to support permanent savings must only ever be seen as a one-off temporary measure and must not be used as a substitute for the delivery of ongoing sustainable alternatives. • The Council must take the steps necessary and the difficult decisions required over the coming financial year to ensure ongoing savings are delivered as planned to provide a viable alternative to the use of reserves to secure future financial sustainability and resilience. <p>The challenges outlined above do not take account of any additional costs, loss of income or ability to progress identified savings programs arising from the impact of Covid-19.</p> <p>Unless managed carefully, a risk remains that further savings or increased income will not be identified to address any funding shortfalls that may arise.</p>	<p>Take informed decisions / Deploy resources in a sustainable manner</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> • Assess the adequacy of the Council’s budget monitoring process, comparing budget to outturn; • Consider the robustness of any key assumptions used in medium term planning; and • Consider the adequacy of savings plans in place and the historic achievement of these.



04

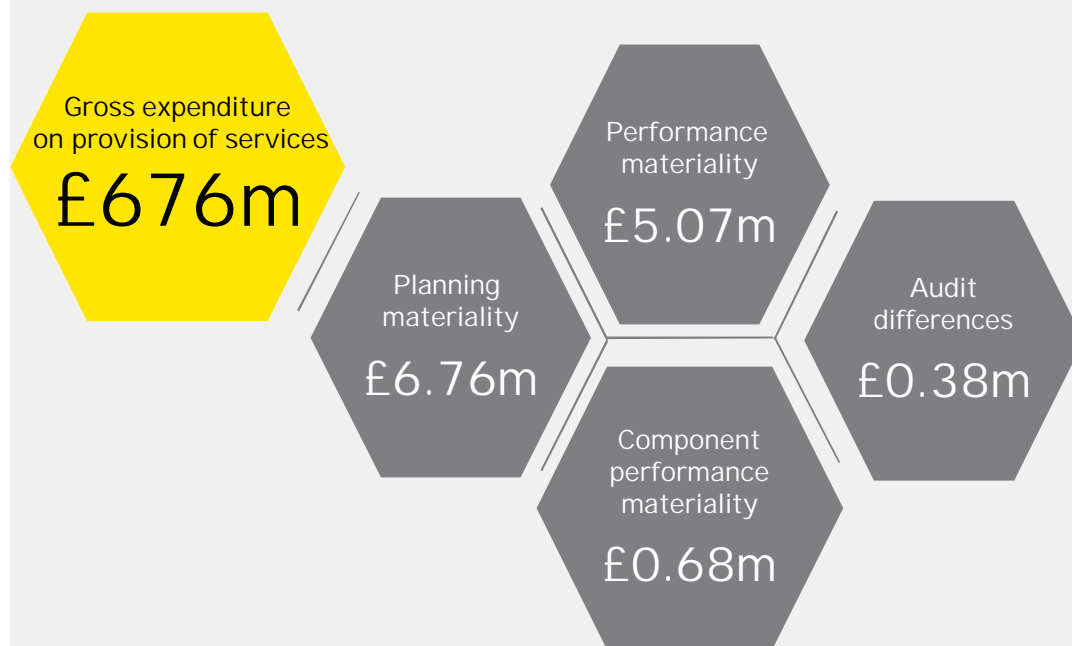
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £6.76m. This represents 1% of the Council's prior year gross expenditure on net cost of services plus interest payable and other charges. It will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.07m which represents 75% of planning materiality.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

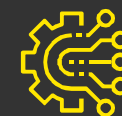
Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality for remuneration disclosures, related party transactions and councillor allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Our Audit Process and Strategy (continued)

Production of the financial statements

To effectively deliver our audit we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate;
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed;
- Work with the Council to improve the use of EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you; and
- Agree the supporting working papers that we require to complete our audit.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple components is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below. We will review this as we undertake our audit and provide any updates to the Audit Committee as necessary.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

1	A	Full scope audits
2	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

The above assessment includes our assessment of the two active subsidiaries. A third subsidiary is dormant and immaterial and therefore will not be included in the consolidated financial statements. The above also does not at this stage include any associates. We will evaluate this following receipt of the financial statements and management's assessment as to whether they are included in the group financial statements. We do not anticipate these being material.

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

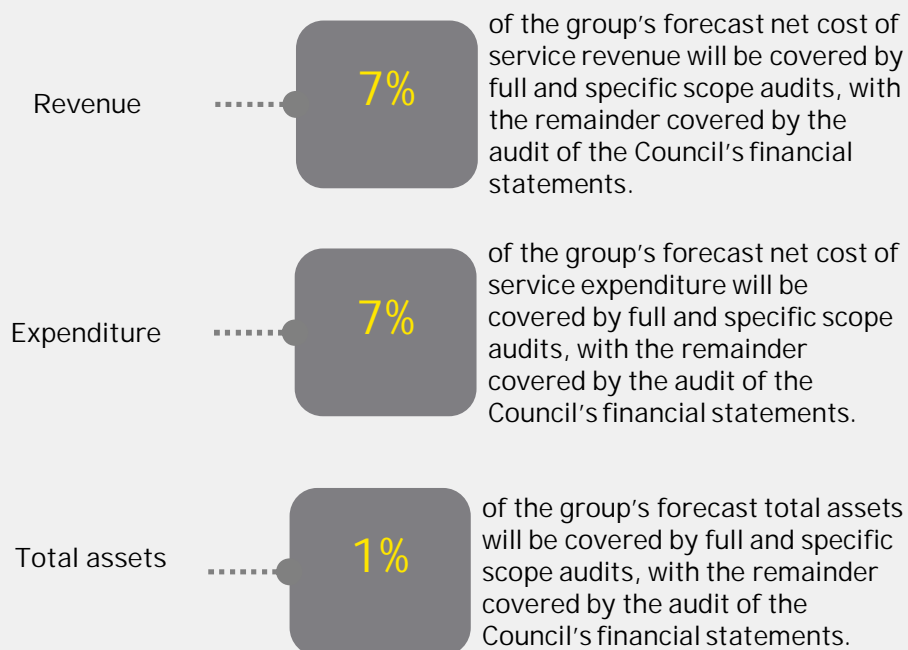
Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit (continued)

Coverage

Based on the group's forecasts for the subsidiaries/prior year results for the Council, our scoping of the subsidiary companies is expected to achieve the following coverage of the group's net cost of service revenue, group's net cost of service expenditure and the group's total assets.



Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Note that the above is based on the gross figures prior to consolidation adjustments, as such, the actual coverage gained via the subsidiary companies may differ.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. For 2019/20 this will relate to the audit of Unitas, undertaken by Howsons. We have listed our planned involvement below.

- We will provide specific instruction to Howsons setting out our expectations regarding the detailed procedures;
- We will set up an initial meeting with the component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

We anticipate undertaking the audit of Fortior Homes, however should this change we will update our planned approach and provide an update to the Audit Committee.

The full scope entity detailed on the previous page relates to the Council as a stand alone entity.

Our assessment of entities has been based on our judgement concerning the size and risk associated with each entity being consolidated.



06

Audit team



Audit team

The engagement team is led by Hassan Rohimun, who is supported by Sunny Gill, Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. Both work within our dedicated Government and Public Sector team and have significant experience on council audits.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team will be utilised where any specific risks or issues are identified that require further consultation.
Pensions disclosure	EY Actuaries
PFI	EY Internal PFI Specialist

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	February		
Walkthrough of key systems and processes Testing of routine processes and controls Interim audit testing	March		
	April		
	May	Audit Committee	Audit Planning Report
Year end audit	June		
Accounts testing	July		
	August		
Audit Completion procedures	September	Audit Committee	Audit Results Report Audit opinions and completion certificates
	October		
	October - November	Audit Committee	Annual Audit Letter



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence; and ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hassan Rohimun, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%. At the time of writing, the current ratio of non-audit fees to audit fees is 0.09:1. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Relationships, services and related threats and safeguards

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates.
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries.
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation.
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee (1)	143,633	143,633	160,133
Scope change – group financial statements (2)	8,350	N/A	8,350
Other – Fortior Homes (3)	16,500	N/A	16,500
Additional work impact (5)	TBC		
Total audit	TBC		184,983
Certification work (4)	22,250	N/A	22,250
Total fees	TBC		207,233

All fees exclude VAT

(1) We have proposed to management additional fees of £16,500 for work undertaken in respect of: IAS 19 McCloud adjustment, procedures to review the proposed Hanford Waste transaction, additional time taken to review the HRA valuations and for additional work on value for money risk to review the response to the critical Ofsted inspection of children services and the changes to medium term financial plans. Agreed additional fees will require PSAA approval.

(2) The scale fee for the Council is not based on the audit of group financial statements. As such, we have included our estimate of the likely fees, this will represent a scale fee variation and require PSAA approval.

(3) Fee to undertake the financial statements for Fortior Homes Limited, 2018/19 audit yet to be concluded.

(4) The certification work represents the base fees for Housing Benefit and Teachers Pension audits, the final fee for 18/19 will be agreed shortly. For 19/20 the planned fee represents the base fee, i.e. not including any extended testing.

(5) For 2019/20, the scale fee will be impacted by a range of factors (see page 7) which will result in additional work (any variations from the scale fee will require PSAA approval). We set out the potential areas for this below and the issues we have identified at the planning stage which will impact on the fee include:

- The need to engage EY Real Estate to review the valuation of property and investment property valuations.
- Review of transactions associated with the capitalisation directive.
- Impact of enhanced pension assurance programme following the triennial valuation in the year and the pensions judgements in 2018/19 that materially affected the liabilities reported.
- Additional work that will be required to address the value for money risks identified.
- Any additional work to assess the impact of Covid-19 on the 2019/20 financial statements

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.




If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B




Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report




Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity Any fraud that we have identified or information we have obtained that indicates that a fraud may exist A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> Non-disclosure by management Inappropriate authorisation and approval of transactions Disagreement over disclosures Non-compliance with laws and regulations Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> The principal threats Safeguards adopted and their effectiveness An overall assessment of threats and safeguards Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report
Group audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit planning report Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Open Report

City of
Stoke-on-Trent

Audit Committee

28 May 2020

Internal Audit Annual Report 2019/20

Report of	Section 151 Officer
Report Author	Clare Potts, Strategic Manager – Audit and Fraud
Type of Decision	Regulatory Decision
Cabinet Member	Cabinet Member for Corporate Resource, Strategy and Partnerships
Wards Affected	No Ward Implications
Stronger Together Priorities and how they are applicable:	
An innovative and commercial council, providing effective leadership to help transform outcomes	
<i>The mission of internal audit is “To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.” [Public Sector Internal Audit Standards]. The city council’s internal audit charter states that Internal Audit supports the Authority in the effective delivery of services. Internal Audit also assists the Audit Committee and Senior Management to discharge their roles of accountability and stewardship.</i>	

1.0 Reason and Purpose of Report:

1.1	The purpose of this report is to provide the Audit Committee with a summary of the audit work from which an overall opinion has been derived. The report (attached at Appendix 1) provides a summary of the activities of Internal Audit for the year 2019/20.
1.2	The overall opinion, which is to be included in the Annual Governance Statement is that for 2019/20 the level of assurance on the adequacy and effectiveness of the city council’s control environment is Satisfactory. Areas identified for further work will continue to be addressed and reported to the Audit Committee on a quarterly basis.

2.0 Recommendation(s):

2.1	That in accordance with the Committee’s terms of reference, the report attached at Appendix 1 be approved.
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3.0 Summary of Main Points:

3.1	The Accounts and Audit Regulations 2015 include the statutory requirement that a relevant body must ‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’. This requirement is met through the continued work of the Internal Audit function under the direction of the Assistant Director - Finance (Section151 Officer).
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3.2	The Annual Internal Audit Plan for 2019/20 was presented to the Audit Committee at its meeting in March 2019 and outlined the audits that were planned for the year. The report at Appendix 1 provides a summary of the activities of Internal Audit during 2019/20.
3.3	By considering and noting quarterly and annual reports on the activity of Internal Audit, the Audit Committee is discharging its role within the Authority's governance framework.
3.4	By reviewing the attached report, the Committee demonstrates its commitment to maintaining a strong, robust and transparent approach to governance.
3.5	From the work that has been undertaken during 2019/20 the level of assurance on the adequacy and effectiveness of the city council's control environment is Satisfactory.
3.6	Areas identified for further work will continue to be addressed and reported through the established reporting mechanism.

Technical Appendix:

List of Background papers <i>(information not already published):</i>
None.
List the appendices included as part of this report:
Appendix 1: Internal Audit Annual Report 2019/20

Implications taken into consideration in this report *(Please list as separate appendix if required):*

Financial and Commercial:
The work outlined in this report has been carried out within the approved budget for Internal Audit. The financial implications resulting from the recommendations made within audit reports will be highlighted within individual audit reports wherever possible. It is the responsibility of managers receiving audit reports to take account of these financial implications, and to take the appropriate action. There are no direct financial implications arising from this report.
Legal:
<p>The Accounts and Audit (England) Regulations 2015, state that the relevant body, [the City Council] "must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control" (6(1)).</p> <p>The activities of Internal Audit are planned in accordance with the Accounts and Audit Regulations which place a duty upon the head of internal audit to report to members on a regular basis.</p> <p>Section 151 of the Local Government Act 1972 states that every local authority should make arrangements <i>for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs</i>'. CIPFA has defined '<i>proper administration</i>' in that it should include '<i>compliance with the statutory requirements for accounting and internal audit</i>'.</p> <p>By acting upon recommendations within internal audit reports, the council is demonstrating its commitment to maintain an adequate and effective system of internal control, as required by these regulations. Satisfactory delivery of the audit plan assists the Assistant Director - Finance (s151 Officer), in discharging their duties under section 151 of the Local Government Act 1972.</p>
Human Resources:
There are no Human Resources implications arising from this report.
Public Health and Public Services (Social Value) Act 2012:
There are no Public Health or Public Services (Social Value) Act implications arising from this report.
Equality Impact or Environmental Impact Assessments:
There are no Equality Impact or Environmental Impact Assessments arising from this report.
Key Risks:
<p>The key risk to be considered in noting the attached report is that the independent and objective assurance provided by Internal Audit is, or is perceived to be, compromised. The consequence of which is that opportunities to improve the Authority's system of internal controls, governance framework and the delivery of its objectives are not identified or acted upon.</p> <p>This risk is managed through a combination of the governance and reporting frameworks within which Internal Audit operates and the overview carried out by this Committee. No risks have been identified that are not within acceptable tolerances.</p>

Options Considered:	
1.	Issue an annual report to summarise the work of the internal audit team and provide an opinion on the control environment for inclusion in the council's annual governance statement. Recommended.
2.	To not produce an annual report or annual opinion. Not advised as required for inclusion in the annual governance statement.



Internal Audit Annual Report 2019/20

Issued: May 2020
Author: Strategic Manager – Audit and Fraud
Stoke-on-Trent City Council

1. Introduction

- 1.1 This is the annual report of the Strategic Manager – Audit and Fraud, which sets out the results of the work of Internal Audit for 2019/20. The report has been presented to the Assistant Director – Finance (s151 Officer) in support of the findings and recommendations, enabling an overall opinion to be provided, which will subsequently be included in the Annual Governance Statement for 2019/20.

2. Background

2.1 Definition of Internal Audit Activity

‘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.’ (Public Sector Internal Audit Standards)

2.2 The Requirement for Internal Audit

Specific requirements, as detailed in The Accounts and Audit Regulations 2015 include the statutory requirement that a relevant body must ‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

- 2.3 The Authority’s Financial Regulations¹, contained within the Council’s Constitution (Part 4 Procedure Rules, section f) make a number of references to the role and function of Internal Audit including reporting to the Audit Committee, compliance with the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations.

2.4 Internal Audit Charter

In accordance with PSIAS, the Internal Audit Charter 2019/20 was reviewed and presented to the Audit Committee; along with the Annual Internal Audit Plan for 2019/20, at its meeting in March 2019. This review confirmed that the charter remained fit for purpose and no changes were required. The Charter is a formal document which defines the purpose, authority and responsibility of Internal Audit. To ensure the currency of the document, it is reviewed on an annual basis.

3. Planning and Reporting

3.1 Background

Within the PSIAS, standard 2010 states that there must be risk based audit plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals. The input of senior management should be considered in this process, the basis upon which it should be constructed, the extent to which stakeholders are consulted, and the roles and responsibilities for its execution are clearly laid down.

3.2 Planning

The Annual Internal Audit Plan for 2019/20 was presented to and approved by the Audit Committee on 14 March 2019. The report outlined the expected resources to be employed and the audits that were planned for the forthcoming year. In accordance with the requirements of the PSIAS, reports have been presented on a quarterly basis to members of the Audit Committee, summarising the work of Internal Audit and where appropriate, providing an opinion on the assurance that can be assigned to the controls operating within the system(s) under review.

¹ https://www.stoke.gov.uk/download/downloads/id/272/city_council_constitution.pdf

3.3 Reporting to the Audit Committee

Between April 2019 and March 2020 19 internal audit reports were presented to the Audit Committee, of which 14 related to 2019/20. The 14 reports covered the following areas:

- Quarterly monitoring reports for 2019/20 (3 reports)
- Counter Fraud / Corruption (3 reports)
- Management of Risk (2 reports)
- Audit Committee – Roles and Responsibilities (1 report)
- Audit Committee – Terms of Reference (1 report)
- Audit Committee Work Planner / Programme updates (4 reports)

Quarterly reports continue to keep members informed of progress, findings, recommendations and improvements.

The details of the above reports are set out in table 7 at Appendix 1a.

3.4 Reporting (individual reports) to Officers

At the conclusion of each audit, the auditor provides a debrief to the auditee outlining the findings and verbally reporting the recommendations that will be made within the written report. The officer(s) receiving the report is (are) required to confirm their agreement to implement actions to address the recommendations. All audits have been conducted in conformance with the PSIAS.

3.5 Annual Reporting to Directors

Throughout the course of the year, all recipients of internal audit reports are invited to attend a closing meeting to confirm that the contents of the audit report are formally accepted as being factually correct, and giving an assurance that the recommendations within the report will be implemented in line with agreed timescales. Directors are provided with regular summaries of the work carried out within their directorates, analysed to divisional level.

3.6 During early 2020 a new operating framework was developed to ensure that all elements of the organisation are able to work more closely together to deliver the Stronger Together Strategic Plan, strengthen partnership working and improve outcomes for our residents. This provides a clear golden thread from the vision and priorities through to team and individual plans. Part of this process involves an accountability commitment and includes a commitment from senior managers to ensure internal audit recommendations are implemented and key risks are being managed. Due to the covid-19 emergency, there has been some delay in establishing the final framework, it is anticipated this will be in place by June 2020.

3.7 For all audits where the opinion given was unsatisfactory or unsound, corporate directors are also asked to confirm that the weaknesses are being addressed and that an action plan is in place to monitor recommendations. The Audit Committee also seeks additional assurance by inviting relevant senior managers to attend the Committee to discuss these action plans.

3.8 A summary of areas of weakness which impact upon the overall opinion assigned to the control environment is provided within section 14 of this report.

4. Resources

4.1 The direct services provided by Internal Audit are summarised as follows:

- a. **Assurance:** Proactive Planned / Reactive Unplanned Assurance / Grant and Assurance to External Stakeholders: The undertaking and completion of audit reviews, usually resulting in the provision of an assurance opinion.
- b. **Verification:** The regular sample review of completed recommendations / agreed actions to verify that they have been effectively implemented.

- c. **Anti-Fraud Work:** Proactive and reactive work, carried out in conjunction with the Corporate Fraud Team, with the primary aim of detecting (e.g. data-matching exercises) and preventing fraud and where appropriate strengthen controls.
- d. **Advice, Non-Assurance Consultancy and Third Party Requests:** The provision of advice and service reviews to assist directorates in the delivery of effective and well managed services.

4.2 The Internal Audit Plan presented to the Audit Committee on 14 March 2019, detailed the planned work programme for 2019/20. The report also provided details of the expected resources within the Internal Audit budget for the coming year. The level of actual resources compared to planned resources is monitored throughout the year.

4.3 Performance data

In order to monitor performance against the work identified within the annual plan, Internal Audit work is monitored on a regular basis. Table 1 analyses the status of the planned work at the end of March 2020, showing whether the work had been completed/in progress, or has still to be started. Of the planned work identified in the 2019/20 Audit Plan, 83.9% of the work had either been completed or was underway at 31/03/20; the remaining 16.1% was carried forward into 2020/21.

Table 1 - Summary of Audit Plan 2019/20

Category	Planned Assurance		Counter Fraud		Consultancy / Non-Assurance		Total		
	No.	%	No.	%	No.	%	No.	%	%
Complete	37	54.4%	4	100.0%	26	96.3%	67	67.7%	83.9%
In Progress	15	22.1%	0	0.0%	1	3.7%	16	16.2%	
Deferred	14	20.6%	0	0.0%	0	0.0%	14	14.1%	16.1%
Under Review	2	2.9%	0	0.0%	0	0.0%	2	2.0%	
Sub Total	68	100%	4	100%	27	100%	99	100%	100%
Not required	10		0		0		10		
Total	78		4		27		109		

5. Work Undertaken During 2019/20

5.1 Audits Completed

During the period April 2019 to March 2020, 35 reports were completed and issued (summarised over).

Table 2 - Summary of audit reports issued during 2019/20

Directorate	Number of reports issued	Number of recommendations made
City Director	14	44
Children and Family Services (General)	6	23
Children and Family Services (Schools)	2	7
Place, Growth and Prosperity	7	33
Housing and Customer Services	3	18
Adult Social Care, Health Integration and Wellbeing	3	8
Total	35	133

5.2 Recommendations Made

The 35 reports covered a total of 133 recommendations, detailed to individual report level at Appendix 1b. This schedule also identifies the risks assigned (to recommendations) within each audit report. The 133 recommendations were classified as follows:

Table 3 - Recommendations made during 2019/20

Classification	Recommendations	%
High	4	3.0%
Medium	42	31.6%
Low	71	53.4%
Not Classified	16	12.0%
Total	133	100%

5.3 Audit reports were produced continually throughout the year. A schedule of reports issued was produced on a quarterly basis and presented to the Audit Committee. Not all areas of work originally scheduled for 2019/20 were completed within the year. The outstanding work has been:

- Deferred to 2020/21, in which case it will be scheduled into the appropriate quarter of the 2020/21 plan, or
- Subject to a reassessment of risk and the work reclassified, or
- Deemed no longer applicable.

5.4 Status of recommendations

Having accepted the recommendations made as a result of internal audit work, senior managers are responsible for ensuring their prompt implementation. From the information provided, the reported status of the (133) recommendations made during 2019/20 is:

Status	No.	%
Implemented	45	34.1%
Not implemented	34	25.7%
Issued (i.e. not yet reached the due date)	53	40.2%
	132	100.0%
No Longer Required	1	
Total	133	

- 5.5 Recommendations made during 2019/20 will continue to be monitored. Information provided by managers is recorded and monitored through to completion. For details of recommendations made in previous years, see Appendix 1c.

6. Verification - Process for Audit Recommendations

- 6.1 For all audit reports issued, officers were asked to confirm the delivery of recommendations on a timely basis and forward evidence of the same to Internal Audit. To monitor the integrity of the information supplied, periodically Internal Audit undertakes a review to verify the status of a sample of management updates; primarily regarding implemented / closed recommendations.
- 6.2 A rolling programme of verification work has now become an integral part of Internal Audit's annual plan and the work carried out to date for 2019/20 is outlined at Table 4 below:

Table 4 - Summary of Verification Work 2019/20

Year 2019/20	Verification			
	01/04/19 to 05/04/20			
Recommendation status / risk	High risk	Medium	Low	Total
Implemented - verified by Audit	0	16	29	45
Not Implemented - verified by Audit	1	4	1	6
Implemented - advised by client (not verified)	0	11	5	16
Grand Total	1	31	35	67

- 6.3 With regard to the six recommendations internal audit were unable to verify as implemented, subsequent updates received from management have advised that two recommendations have now been implemented and will therefore form part of future verification exercises. The remaining four are not implemented (1 high and 1 low relate to the 2016/17 audit of Community Asset Transfers and the 2 medium recommendations relate to Adult's Safeguarding Training and Markets) action is being taken to progress these recommendations.
- 6.4 The above table summarises those recommendations issued since April 2018 (start of 2018/2019), the current status of which has been updated on or after April 2019 (start of 2019/2020) to implemented, advised by client. These were periodically selected for verification; during the year 67 recommendations have been subject to verification.

7. Customer Satisfaction

- 7.1 The Internal Audit Service routinely issues a client survey following each planned audit. During 2018/19, the survey was simplified to an online form containing five questions (reduced from the previous 18), covering satisfaction with audit staff, the audit process, the format of the report, the extent to which the report added value for the service manager and their overall satisfaction with the service they received.

7.2 During 2019/20 the service received a total of five surveys. From the results received, the overall level of satisfaction has been calculated as 10 (out of a maximum score of 10). Further work is planned in 2020/21 to encourage responses to surveys.

7.3 The survey invites respondents to provide comments on the overall service and how, in their opinion, the service could be improved. Where comments are included within the surveys, they are followed up and any suggestions considered for future improvements.

8. Compliance with the Public Sector Internal Audit Standards

8.1 The Public Sector Internal Audit Standards (PSIAS), which came into force in April 2013; updated August 2017, apply across the whole of the public sector and provide a framework for internal audit which:

- defines the nature of its work;
- sets out its basic principles;
- aims to improve organisational processes and operations; and
- forms a basis to evaluate its performance.

8.2 Local authorities must demonstrate their compliance with the new standards. Compliance against the Standards is to be subject to periodic self-assessment, supplemented by an external assessment conducted at least once every 5 years. In February 2018, an external review of the internal audit service was undertaken. The review included interviews with the Strategic Manager Audit and Fraud, members of the Audit and Fraud Team, senior officers, a selection of internal audit clients and a meeting with the council's external auditors. The review also included an evaluation of the documentation produced by the internal audit. The overall opinion as a result of the review was that the Internal Audit Service had achieved the top standard of 'Generally Conforms' to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note. The review highlighted a number of recommendations and suggestions all of which have been implemented.

8.3 A further area of development for the service is the use of data analytics to inform audits. Powerful data analytical software enables a thorough analysis of large volumes of data to ensure data quality, test controls effectiveness and provide business insight. This replaces traditional audit testing and allow 100% of data to be analysed resulting in a higher quality of assurance being provided. During 2019/20 this approach was used to provide assurance on key financial systems with large transactional volumes such as payroll, revenues and creditor payments. The strategy is to work towards a continuous audit approach where regular data extracts are taken to perform a variety of tests that will enable the investigation of exceptions near to real-time.

8.4 Improvement Programme for 2019/20 (PSIAS Self-Assessment)

An updated self-assessment exercise has been undertaken which showed that the service was fully/partially compliant in 97% of the standards. Actions continue to be identified and undertaken to increase compliance. The following work-streams have been put in place to further improve the services provided by Internal Audit:

- a. Audit Plan: To ensure a comprehensive and fully informed planning process is undertaken.
- b. I.T. Assessment: To ensure an effective review of IT governance within the Authority.
- c. Staff Development: Ensuring the maintenance and development of professional knowledge within the Team.
- d. Resources: To monitor the skill basis and requirements of the Team.
- e. Quality Assurance Improvement Plan: To have in place a clear plan for the on-going development of Internal Audit.
- f. Performance: Continue to develop the reporting framework for Internal Audit.
- g. Governance: Maintaining the professional standing of the Team and its delivery of the Authority's corporate priorities.

9. External Audit

- 9.1 Responsibility for the council's external audit arrangements transferred to EY (Ernst Young) from 1 April 2018.
- 9.2 Internal Audit continues to work closely with our external audit colleagues and regular discussions between the council's senior officers and the Engagement Leads and Engagement Officers have proved helpful.

10. Internal Audit and the Management of Risk

- 10.1 Internal Audit undertake a risk based approach to audit assignments; identifying objectives, risks and controls, evaluating the extent to which those controls address the organisation's risks, identifying over- or under-control, articulating residual risk and recommending management action as appropriate. This approach is subject to continuous review, and during 2018/19 a review of audit processes and documentation was undertaken to ensure a comprehensive risk based approach. Internal Audit continues to be in a unique position to educate senior management on risk and inform the council's risk management processes and procedures.
- 10.2 In October 2019, an external review of the council's risk management arrangements was undertaken which assessed the council as level 2, in development. The review looked at a number of areas including culture and leadership, risk appetite and strategy, governance, methodology, people and training, projects, partnerships and supply chain. The review identified 16 recommendations which have been used to produce an action plan for improvement. A number of actions have already taken place including a review of the Management of Risk policy. The approach to risk management is also being considered as part of the review of the operational framework being led by the City Director.
- 10.3 Internal Audit is to continue to review and assist in improving the management of risk; and has in its audit plan for 2020/21 allocated resources to support the embedding of risk management across the council.

11. Internal Audit and Governance

- 11.1 Internal Audit undertakes a number of audits each year to provide assurance on the authority's governance arrangements. During the year 2017/18, Internal Audit reviewed the following key areas of governance: Ethics and Chief Officer Decision Making. These audits were finalised in early 2019/20 with results being a satisfactory opinion for Ethics and a marginal opinion for Chief Officer Decision Making. Work to address the recommendations made is currently in progress with the relevant officers.
- 11.2 During 2018/19 Internal Audit undertook a review of the Governance arrangements in place between the council and Fortior Homes, the council's wholly owned housing development company. This report was finalised during 2019/20 and the result of the audit were satisfactory.
- 11.3 During 2019/20 Internal Audit undertook an audit of the General Data Protection Regulations with the resultant audit opinion of "Unsatisfactory". As this report was issued in March 2020 senior management will be taking steps over the next 12 months to address the recommendations made. Further details are provided in section 14 below.
- 11.4 Internal Audit will continue to review and assist in improving the authority's governance arrangements. In the audit plan for 2020/21 resources have been allocated to review Budget

Management, Business Continuity, Commercial Review, Leadership and the Business Transformation Programme, along with work-in-progress carried forward for completion in respect of Contract Management and Corporate Savings.

12. New Areas of Growth

12.1 Counter Fraud Initiatives

During 2019/20 Internal Audit in conjunction with Corporate Fraud colleagues has continued to develop the Authority's proactive approach to counter fraud; including joint working and data-matching.

12.2 Reactive Investigatory / Joint Working

As part of Internal Audit's improvement programme it has also continued to develop its working relationship with the Corporate Fraud Team; undertaking a number of joint assignments and exercises during the course of the year. This enables the Strategic Manager – Audit and Fraud to effectively respond to requests, utilising the disciplines and expertise of both Teams as required. Progress on the development of this joint approach to anti-fraud work will be reported to future committee meetings. The output of this work included:

- Findings referred to the Corporate Fraud Team to progress;
- Findings reported to the relevant senior officers;
- Recommendations of action(s) to be taken;
- Recommendations of improvements to be acted upon.

12.3 Advice / Non-Assurance Consultancy Summary

During 2019/20 Internal Audit continued to provide advice and consultancy services, when requested, to the Authority's services / officers regarding its governance and control framework, including:

- Receiving of Income;
- Retention and custody of information;
- Securing cash funds;
- Payroll administration;
- Compliance and interpretation of Contract Procedure Rules and Financial Regulations;
- Disposal of Assets;
- Business continuity provision;
- Segregation of duties and authorisation procedures;
- Application of I.T. controls.

13 Basis Used for Audit Opinion

13.1 An audit opinion is provided for all planned risk based audit reports. Where applicable, the opinion summarises the extent of the assurance that can be given as derived from the audit testing that has been carried out. The levels of assurance assigned throughout the year are then used as a basis upon which to report an annual opinion regarding the overall internal control environment.²

13.2 The levels of assurance are derived from the evaluation of the controls in operation and the recommendations made at the conclusion of the audit. Each recommendation is evaluated according to the risk perceived to be attached to the control. Recommendations are categorised as either, low, medium or high, and will clearly identify the urgency with which any action should be

² This is distinct from the opinion given by External Audit on whether the accounts "presents fairly" when examining the Council's financial position.

taken. It serves to highlight the risk attached to weak/failing controls and is reflected in the overall level of assurance assigned to each system. (Appendix 1b details the reports which have been issued during 2019/20, and where appropriate, provides an audit opinion for each audit)

- 13.3 During 2019/20, of the 35 reports issued, 33 reports contained an opinion. Of those, 27 (81.8%) received a positive (either a good or satisfactory) opinion. Three (9.1%) received a neutral (marginal) opinion and three (9.1%) reports were assessed as having a negative (unsatisfactory or unsound) opinion. Table 5 over shows the full analysis of the assurance levels assigned.

Table 5 - Summary of assurance levels for reports issued during 2019/20

Opinion		Reports Issued	
Good Assurance	positive opinion	18	54.5%
Satisfactory Assurance	positive opinion	9	27.3%
Marginal	neutral opinion	3	9.1%
Unsatisfactory Assurance	negative opinion	2	6.1%
Unsound Assurance	negative opinion	1	3.0%
Sub total		33	100.0%
Without Opinion		2	-
Total		35	-

Appendix 1d provides charts comparing 2018/19 opinions with those issued in 2017/18.

- 13.4 At the end of 2019/20 a number of audits which had commenced during the year were nearing completion (see table 6). As these reviews were not reported during the year they are not included in the above figures although they reviewed systems and information in respect of 2019/20; the findings/expected findings of these reviews are therefore also considered in forming the audit opinion.

14. Issues Affecting the Internal Control Environment

- 14.1 Three reports were issued in 2019/20 that had negative opinions. These were Bars and Events; General Data Protection Regulations (Corporate); and Adults – Safeguarding Training.
- 14.2 The Bars and Events audit made 20 recommendations; two high risks, 12 medium risks and six low risks, with the resultant audit opinion of “Unsound”. The key areas which required improvements were in respect of establishing clear policies and procedures, and budgetary control. As this report was issued in March 2020 all recommendations currently remain outstanding.
- 14.3 The General Data Protection Regulations (Corporate) audit made 12 recommendations; two high risks, five medium risks and five low risks, with the resultant audit opinion of “Unsatisfactory”. The key areas which required improvements were in respect of training, guidance and monitoring the Authority’s compliance with the requisite regulations. As this report was issued in March 2020 all recommendations currently remain outstanding.
- 14.4 The Adults – Safeguarding Training audit made four recommendations; three low risks and one medium risk, with the resultant audit opinion of ‘Unsatisfactory’. The key areas which required improvements were in respect of the identification and recording of safeguarding training needs. Actions were agreed to improve processes. At the end of March 2020 internal audit were advised by management that one implementation had been implemented and were working to address the remaining three outstanding recommendations.

- 14.5 At the end of 2019/20 a number of audits were in progress and had yet to be finalised and issued (see Table 6). These reviews will be completed and reported through the regular quarterly monitoring process. In accordance with the Verification Framework the implementation of all recommendations evaluated as high risk will be confirmed.

Table 6 - Planned Audits in progress at the end of March 2020

Directorate	Audit	Status (Preparation, Fieldwork / Draft / Since issued)	Opinion
Children and Family Services	Families Matter Grant <i>Objective: To ensure compliance with the relevant funding body requirements (Department for Communities and Local Government).</i>	On-going	TBA
	Safeguarding Training <i>Objective: The purpose of the review is to provide management with assurance that members of staff who work with children or in services affecting the safety and welfare of children receive all required safeguarding training.</i>	Preparation	TBA
	Section 17 Payments <i>Objective: To be agreed.</i>	Preparation	TBA
	Schools Financial Value Standard Assurance Statement 2019/20 <i>Objective: That all expected SFVS Returns are received by the Authority and sufficient evidence is received to allow the Section 151 Officer to approve the Council's declaration for 2020.</i>	Fieldwork	Without Opinion
	SENMAS Financial Processes <i>Objective: The purpose of the review was to provide management with assurance that the key risks around ordering and payment for SENMAS goods and services are adequately managed.</i>	Draft	TBA
City Director	Main Accounting and Reconciliations 2019/20 Health Check <i>Objective: To ensure the main accounting system completely and accurately records the financial transactions of the Authority.</i>	Fieldwork	TBA
	Benefit Services 2019/20 Health Check <i>Objective: The purpose of the review is to provide management with assurance that Benefit Services are adequately managed and protected, and that the service effectively manages its risks.</i>	Since Issued	Good
	Corporate Savings <i>Objective: The purpose of the review is to provide management with assurance that the key risks involved in planning and delivering corporate savings projects are being identified, assessed and managed effectively.</i>	Fieldwork	TBA
	Contract Letting <i>Objective: To confirm that procurement and the letting of contracts are undertaken in accordance with requisite legislation and regulations thereby ensuring impartiality, value for money and transparency.</i>	Draft	TBA
	Contract Management <i>Objective: To be agreed.</i>	Preparation	TBA
	Grants Compliance and Clawback <i>Objective: To provide management with assurance that Finance support the management and completion of grant claims and returns; ensuring the accuracy and correctness of submissions.</i>	Fieldwork	TBA

Directorate	Audit	Status (Preparation, Fieldwork / Draft / Since issued)	Opinion
	Payroll 2019/20 <i>Objective: To provide management with assurance that core payroll risks are sufficiently managed and that City Council staff are paid accurately and timely.</i>	Fieldwork	TBA
Housing and Customer Services	Community Investment Fund <i>Objective: The purpose of the review is to provide management with assurance that key risks regarding the application, assessment and award processes and the monitoring of outcomes of funded projects are appropriately managed.</i>	Draft	TBA
	IT Cyber Security <i>Objective: The purpose of the review is to provide management with assurance that the key risks surrounding cyber security resilience are effectively managed.</i>	Fieldwork	TBA

TBA: To be advised on completion of review.

15. Audit Opinion

- 15.1 There is a requirement for the Strategic Manager – Audit and Fraud (Head of Internal Audit) to provide an opinion on the internal control environment of the City Council. This opinion is derived from the work conducted by Internal Audit during the financial year. The current assurance framework provides a sound and logical basis from which to identify areas of concern in relation to the internal control environment. The framework (detailed at Appendix 1e) offers five varying levels of opinion. The highest level of assurance, ‘good’, would be given where it was concluded (from the audit work conducted and sample testing undertaken) that no significant control weaknesses in the Council’s systems have been identified. The lowest level of assurance, ‘unsound’, would be given where it was concluded that one or more fundamental system(s) have been identified as having major absences or weaknesses which are not being addressed; and therefore places the City Council’s internal control environment at risk.
- 15.2 From work undertaken or in progress relating to 2019/20, several systems were identified as having areas of weakness and required improvement. Management have confirmed their commitment that the recommendations made within internal audit reports will be addressed and implemented in accordance with the agreed action plans and quarterly updates will ensure that progress against these recommendations is monitored and reported to members on a quarterly basis.
- 15.3 Based upon these results, the assurance provided by senior managers, the actions already underway to improve controls, and the on-going work of internal audit the following opinion has been drawn. It has been concluded that the level of assurance on the adequacy and effectiveness of the City Council’s control environment is “Satisfactory”, subject to the outcome of ongoing reviews.
- 15.4 The Council continues to face increasingly difficult financial challenges through reductions in funding from external sources. The work of officers is recognised in maintaining the control environment whilst delivering a council wide savings programme within its statutory obligations.

16. Annual Governance Statement

- 16.1 The Accounts and Audit Regulations (England) 2015, require local authorities to produce an annual governance statement, a formal statement that recognises records and publishes the Authority’s governance arrangements.
- 16.2 The work of Internal Audit enables the Strategic Manager – Audit and Fraud to provide an overall opinion on the control environment of the City Council, which is incorporated into the annual

governance statement. This will be reported to the Audit Committee in due course.

17. Conclusion

- 17.1 The City Council looks to the Assistant Director - Finance as its Section 151 Officer for the assurance that its systems of financial control are operating efficiently and effectively. As part of its annual plan, Internal Audit examines the financial systems of the City Council and monitors, on a regular basis, the extent to which management have implemented the recommendations made within audit reports. The quarterly reports on the activity of Internal Audit provide an overview of activities throughout 2019/20.
- 17.2 During 2019/20 Internal Audit has continued to examine the key financial systems, fundamental systems and the authority's establishments, and considered the extent to which management has implemented the recommendations made within the audit reports. Whilst work continues to complete assignments that were started in 2019/20 based upon those reports issued during the course of 2019/20 (summarised in tables 2 and 3 above), and the factors highlighted at section 14 above, an overall opinion that a "Satisfactory" level of assurance can be provided on the adequacy and effectiveness of the City Council's control environment is considered to be appropriate for 2019/20.

Clare Potts
Strategic Manager – Audit and Fraud
May 2020

Table 7 – Reports to the Audit Committee 2019/20

	Agenda	Date of meeting	Details of the Report	Outcome
1	Open	30 May 2019	Draft Annual Governance Statement 2018/19	Committee support draft Annual Governance Statement being published alongside draft Statement of Accounts
2			Internal Audit Annual Report 2018/19	Report be approved.
3			Audit Committee Annual Report 2018/19	Report be noted and presented at the next City Council.
4			Work Programme May – July 2019	Report be noted and updated.
5	Open	25 July 2019	Annual Governance Statement 2018/2019	Subject to audit opinion, statement be approved and recommended for signing.
6			Internal Audit Quarterly Monitoring Report 2019/20: April – June 2019	Report be noted.
7			Confidential Reporting – Monitoring 2018/19	Report be noted and further reports to be presented on referrals.
8			Counter Fraud Update	Report be noted.
9			Work Programme July 2019 – May 2020	Report be noted and updated.
10	Open	24 October 2019	Review of the Audit Committee's Terms of Reference	That amendments to the Terms of Reference be accepted and recommended to the Constitution Working Group for proposal to City Council.
11			Internal Audit Quarterly Monitoring Report 2019/20: July – September 2019	Report be noted.
12			Counter Fraud Update	Report be noted.
13			Counter Fraud Statement	The Committee continues to support the principles of the statement.
14			Work Programme October 2019 – July 2020	Report be noted and updated.
15	Open	30 January 2020	Annual Review of the Management of Risk Policy	Policy be noted and submitted to Cabinet for approval.
16			Strategic Risk Register	Contents be noted
17			Internal Audit Quarterly Monitoring Report 2019/20: October – December 2019	Report be noted.
18			Roles and Responsibilities	Report be noted and arrangements made for members to complete self-assessments.
19			Work Programme January – October 2020	Report be noted.

City Director

	Total
Total Reports Issued to date for 2019/2020	14
Reports without an Audit Opinion	1
Reports with an Audit Opinion	13
Reports with Good Assurance	9
Reports with Satisfactory Assurance	3
Reports with Marginal Assurance	1
Reports with Unsatisfactory Assurance	0
Reports with Unsound Assurance	0

Directorate Analysis of Reports Issued

Number Planned	14
Number Unplanned	0
Total Reports	14

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made		
					High	Medium	Low
1 Planned	Ethics (Framework) Issued 10/04/19	James Doble	4	Satisfactory	0	0	4
	Objective: To ensure the Authority achieves the governance principle of "Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law." [First principle of Good Governance listed in the CIPFA Guidance 2016].						
2 Planned	Decision Making (Chief Officers) Issued 16/04/19	James Doble	10	Marginal	0	3	7
	Objective: Chief Officers' Decisions are taken in accordance with the Authority's Constitution and Scheme of Delegation, and are appropriately authorised, recorded and published.						
3 Planned	Local Government Pension Scheme Contributions Return 2017/2018 Issued 18/04/19	Alexia Shaw	2	Satisfactory	0	1	1
	Objective: To provide management with assurance that the necessary processes were in place to ensure the Authority complied with the LGPS 2013 pension scheme regulations in 2017/2018, and thereby complete and submit the Employee and Employer Contributions Return 2017/18.						

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made		
					High	Medium	Low
4 Planned	Value Added Tax 2018/2019 (Health Check) Issued 21/06/19	Paul Boden	2	Good	0	0	2
	Objective: The purpose of the overview is to provide management with assurance that Value Added Tax is correctly and accurately accounted for and the Authority's partial exemption is effectively managed.						
5 Planned	Creditor Payments (Health Check) Issued 04/07/19	Alison Bennett	1	Good	0	0	1
	Objective: The purpose of the review is to provide management with assurance that the key risks around creditor payments are adequately managed.						
6 Planned	Main Accounting and Reconciliations 2018/2019 (Health Check) Issued 13/08/19	Alison Bennett	0	Good	0	0	0
	Objective: The purpose of the review is to ensure the main accounting system completely and accurately records the financial transactions of the Authority.						
7 Planned	Revenues 2018-19 (Health Check) Issued 03/09/19	Kaye Holmes	0	Good	0	0	0
	Objective: The purpose of the review is to provide management with assurance on the billing and collection of Council Tax, NNDR and Sundry Debt.						
8 Planned	Local Authority Bus Subsidy Grant 2018/2019 Issued 18/09/19	Kerry Cartlidge	1	Good	0	0	1
	Objective: The purpose of the review was to provide assurance that the grant paid has been used in a manner only for the purposes of supporting bus services (including community transport services run under a section 19 permit), or for the provision of infrastructure supporting such services in that authority's, or a neighbouring authority's area.						

[illegible]

City Director

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made		
					High	Medium	Low
13 Planned	Lord Mayors Charity Account 2018/2019 Issued 18/02/20	Paul Boden	0	Good	0	0	0
	Objective: The purpose of the review is to provide assurance that the Balance Sheet and Income and Expenditure Account produced give a true and fair view of the financial position of the Lord Mayors Charity Account as at 31st May 2019.						
14 Planned	Local Government Pension Scheme Contributions Return 2018/2019 (Joint return Stoke-on-Trent City Council and Unitas Stoke-on-Trent Ltd) Issued 03/04/20	Alexia Shaw	6	Satisfactory	0	1	5
	Objective: The review provided management with assurance that the necessary processes were in place to ensure the Authority and Unitas complied with the LGPS 2013 pension scheme regulations in 2018/2019.						
			44		0	5	23
			Recommendations Assessed				28
			Recommendations Not Assessed				16
			Total Number of Recommendations Made				44

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made		
					High	Medium	Low
1 Planned	Milton Youth and Adult Centre Issued 16/09/19	Rachel Dodd	11	Marginal	0	5	6
	Objective: The purpose of the review was to provide management with assurance that the establishment provides a safe and appropriate location for the services delivered.						
2 Planned	Families Matter (Phase 2): Payment by Results - September 2019 Issued 24/09/19	Rachel Dodd	0	Good	0	0	0
	Objective: The purpose of the review was to ensure compliance with the Ministry of Housing, Communities and Local Government's (MHCLG) 1 Financial Framework for the Troubled Families Initiative.						
3 Planned	Families Matter (Phase 2): Payment by Results - January 2020 Issued 17/12/19	Rachel Dodd	0	Good	0	0	0
	Objective: The purpose of the review was to ensure compliance with the Ministry of Housing, Communities and Local Government's (MHCLG) 1 Financial Framework for the Troubled Families Initiative						
4 Planned	Daffodil House (Small Group Home) Issued 12/02/20	Darren Edwards	12	Marginal	0	7	5
	Objective: To provide management with assurance that Daffodil House is managed and appropriate procedures / internal controls are in place to provide an effective framework for the provision of child welfare within the home.						

Children and Family Services (General)

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made		
					High	Medium	Low
5 Planned	Families Matter: Payment by Results - February 2020 Issued 25/02/20	Rachel Dodd	0	Good	0	0	0
	Objective: The purpose of the review was to ensure compliance with the Ministry of Housing, Communities and Local Government's (MHCLG)1 Financial Framework for the Troubled Families Initiative 2 – Phase 2.						
6 Planned	Families Matter: Payment by Results - March 2020 Issued 03/04/20	Rachel Dodd	0	Good	0	0	0
	Objective: The purpose of the review was to ensure compliance with the Ministry of Housing, Communities and Local Government's (MHCLG)1 Financial Framework for the Troubled Families Initiative 2 – Phase 2.						
			23		0	12	11
			Recommendations Assessed				23
			Recommendations Not Assessed				0
			Total Number of Recommendations Made				23

Children and Family Services (Schools)

	Total
Total Reports Issued to date for 2019/2020	2
Reports without an Audit Opinion	1
Reports with an Audit Opinion	1
Reports with Good Assurance	0
Reports with Satisfactory Assurance	1
Reports with Marginal Assurance	0
Reports with Unsatisfactory Assurance	0
Reports with Unsound Assurance	0

Directorate Analysis of Reports Issued

Number Planned	2
Number Unplanned	0
Total Reports	2

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made		
					High	Medium	Low
1 Planned	Schools Financial Value Standard Chief Finance Officer Assurance 2018/2019 Issued 23/05/19	Nick Edmonds	N/A	Without opinion	N/A	N/A	N/A
	Objective: To provide an assurance that the schools within the Authority have adequate controls over their Standards of Financial Management.						
2 Planned	Merit PRU - Governance, Financial Monitoring and Reporting. Issued 16/10/19	M James	7	Satisfactory	0	0	7
	Objective: The purpose of the review is to provide the Governing Body and management of the school with assurance that the school is able to effectively determine, manage and monitor how it is to achieve its objectives and priorities.						
			7		0	0	7
			Recommendations Assessed			7	
			Recommendations Not Assessed			0	
			Total Number of Recommendations Made			7	

Place, Growth and Prosperity

	Total
Total Reports Issued to date for 2019/2020	7
Reports without an Audit Opinion	0
Reports with an Audit Opinion	7
Reports with Good Assurance	3
Reports with Satisfactory Assurance	3
Reports with Marginal Assurance	0
Reports with Unsatisfactory Assurance	0
Reports with Unsound Assurance	1

Directorate Analysis of Reports Issued

Number Planned	6
Number Unplanned	1
Total Reports	7

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made		
					High	Medium	Low
1 Planned	Car Parks - Income - Health Check Issued 04/07/19	Michael Clarke	4	Satisfactory	0	0	4
	Objective: The purpose of the review is to provide management with assurance that secure arrangements are in place to generate, receive and bank intact income generated by the Authority's car parking service.						
2 Planned	Buildings Compliance Issued 09/09/19	Anthony Williamson	4	Satisfactory	0	2	2
	Objective: The purpose of the review is to provide management with assurance that arrangements are in place to ensure the authority's buildings are satisfactorily maintained in compliance with legislative requirements and the health, safety and welfare of those who may be affected by its work and actions is ensured.						
3 Planned	Local Transport Capital Block Funding Grants 2018/19 Issued 25/09/19	Paul Boden Barry Brockbank	1	Good	0	0	1
	Objective: The purpose of the review was to ensure that the Grant paid to the local authority under this determination may be used only for the purposes that a capital receipt may be used for in accordance with regulations made under section 11 of the Local Government Act 2003.						

Place, Growth and Prosperity

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made			
					High	Medium	Low	
4 Unplanned	Local Transport Capital Block Funding (National Productivity Investment Fund) Cobridge Junction Improvement Scheme 2018/2019 Issued 25/09/19	Paul Boden Barry Brockbank	0	Good	0	0	0	
	Objective: The purpose of the review was to provide assurance that the grant paid has been used in a manner that a capital receipt may be used for in accordance with regulations made under section 11 of the Local Government Act 2003.							
5 Planned	Transport Workshops – M.O.T. Services Issued 25/11/19	Adrian Millward	4	Satisfactory	0	2	2	
	Objective: The purpose of the review was to provide management with assurance on the administration procedures undertaken for MOT and taxi suitability tests							
6 Planned	Bars and Events Issued 31/03/2020	Richard Chadwick	20	Unsound	2	12	6	
	Objective:The purpose of the review was to provide management with assurance that the key risks to the bars and events management are being managed effectively and in line with Financial Regulations.							
7 Planned	Carbon Reduction Commitment (CRC) Scheme (Phase2) 2018/19 Issued 31/03/2020	Emma Wade	0	Good	0	0	0	
	Objective:The purpose of the review was to provide management with assurance that the city council had adequate procedures in place to fulfil its duties with respect to CRC legislation and that the annual return for 2018/19 submitted to the Department of Energy and Climate Change (DECC) was both accurate and timely.							
			33		2	16	15	
			Recommendations Assessed					33
			Recommendations Not Assessed					0
			Total Number of Recommendations Made					33

Housing and Customer Services

	Total
Total Reports Issued to date for 2019/2020	3
Reports without an Audit Opinion	0
Reports with an Audit Opinion	3
Reports with Good Assurance	1
Reports with Satisfactory Assurance	1
Reports with Marginal Assurance	0
Reports with Unsatisfactory Assurance	1
Reports with Unsound Assurance	0

Directorate Analysis of Reports Issued

Number Planned	3
Number Unplanned	0
Total Reports	3

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made		
					High	Medium	Low
1 Planned	Authority's Governance of Fortior Homes Limited (A wholly owned subsidiary company) Issued 09/05/19	S Thompson	6	Satisfactory	0	1	5
	Objective: To ensure the Authority has in place effective governance arrangements to manage and oversee its wholly owned subsidiary to ensure the company acts in accordance with the Authority's ethos and corporate priorities.						
2 Planned	Disabled Facilities Grant 2018/2019 Mainstream and Additional Funding Issued 30/10/19	Zainul Pirmohamed	0	Good	0	0	0
	Objective: The purpose of the review was to provide assurance to the City Director and Strategic Manager: Audit and Fraud that both main stream and additional grant funding received by the Authority for 2018/19 have been used in compliance with their respective terms and conditions.						
3 Planned	General Data Protection Regulations (Corporate) Issued 19/03/20	John Bowler	12	Unsatisfactory	2	5	5
	Objective: The purpose of the review was to provide management with assurance that the key risks that may lead to non-compliance with the Data Protection Act 2018 are being managed effectively.						
			18		2	6	10
			Recommendations Assessed				18
			Recommendations Not Assessed				0
			Total Number of Recommendations Made				18

Adult Social Care, Health Integration and Wellbeing

	Total
Total Reports Issued to date for 2019/2020	3
Reports without an Audit Opinion	0
Reports with an Audit Opinion	3
Reports with Good Assurance	1
Reports with Satisfactory Assurance	1
Reports with Marginal Assurance	0
Reports with Unsatisfactory Assurance	1
Reports with Unsound Assurance	0

Directorate Analysis of Reports Issued

Number Planned	3
Number Unplanned	0
Total Reports	3

Job Ref	Report/Date of Issue	Reported To	Number of Recs Made	Level of Assurance	Risk Assessment of Recs Made			
					High	Medium	Low	
1 Planned	Adults - Safeguarding Training Issued 28/10/19	Jackie Bloxham	4	Unsatisfactory	0	1	3	
	Objective:To confirm that Safeguarding Training is established according to the strategic priorities established by the Safeguarding Boards and supported by a process of skill mapping and recording.							
2 Planned	Public Health Grant 2018/19 Issued 17/12/19	Kerry Cartlidge	1	Good	0	0	1	
	Objective: The purpose of the review was to provide management with assurance that the grant has been used to discharge the Public Health responsibilities set out in S73B(2) of the National Health Services Act 2006 (as amended by the Health and Social Care Act 2012), and that the amounts stated in the return output (RO) form are a true reflection of how the grant has been spent.							
3 Planned	The Meadows - Adult Repsite Care Issued 12/02/20	Kerry Holdcroft	3	Satisfactory	0	2	1	
	Objective: To provide management with assurance that The Meadows operates with adequate and appropriate procedures / internal controls to provide an effective framework for the provision of adult respite care.							
			8		0	3	5	
			Recommendations Assessed					8
			Recommendations Not Assessed					0
			Total Number of Recommendations Made					8

Authority Total

	Total
Total Reports Issued to date for 2019/2020	35
Reports without an Audit Opinion	2
Reports with an Audit Opinion	33
Reports with Good Assurance	18
Reports with Satisfactory Assurance	9
Reports with Marginal Assurance	3
Reports with Unsatisfactory Assurance	2
Reports with Unsound Assurance	1

Number Planned	34
Number Unplanned	1
Total Reports	35

No of Recs Made	Risk Assessment of Recs Made		
	High	Medium	Low
133	4	42	71
Recommendations Assessed			117
Recommendations Not Assessed			16
Total Number of Recommendations Made			133

Previous Years Recommendations Summary**Recommendations made in 2018/19 (171)**

Status	As at 12/05/20	
	No.	%
Implemented	131	81.9%
Not Implemented	29	18.1%
Issued	0	0.0%
Sub total	160	100.0%
No Longer Required	11	-
Total	171	-

Recommendations made in 2017/18 (134)

Status	As at 12/05/20	
	No.	%
Implemented	101	97.1%
Not Implemented	3	2.9%
Issued	0	0.0%
Sub total	104	100.0%
No Longer Required	30	-
Total	134	-

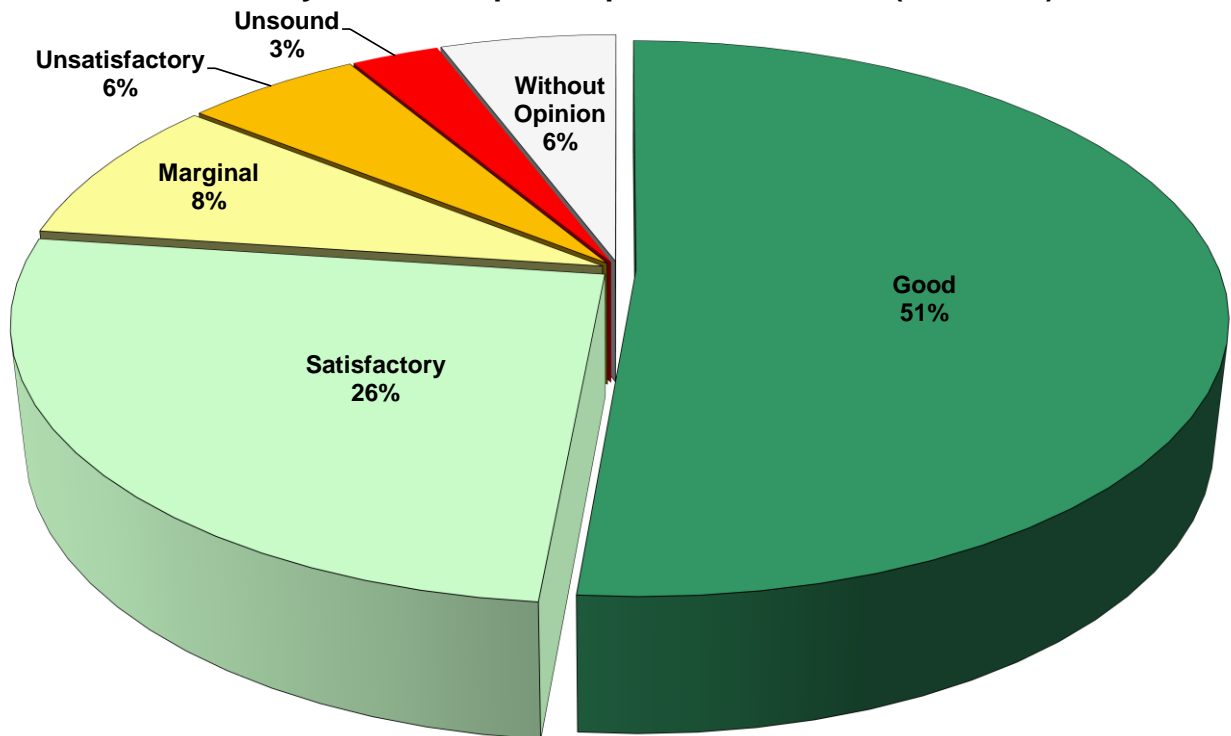
Recommendations made in 2016/17 (135)

Status	As at 12/05/20	
	No.	%
Implemented	79	97.5%
Not Implemented	2	2.5%
Issued	0	0.0%
Sub total	81	100.0%
No Longer Required	54	-
Total	135	-

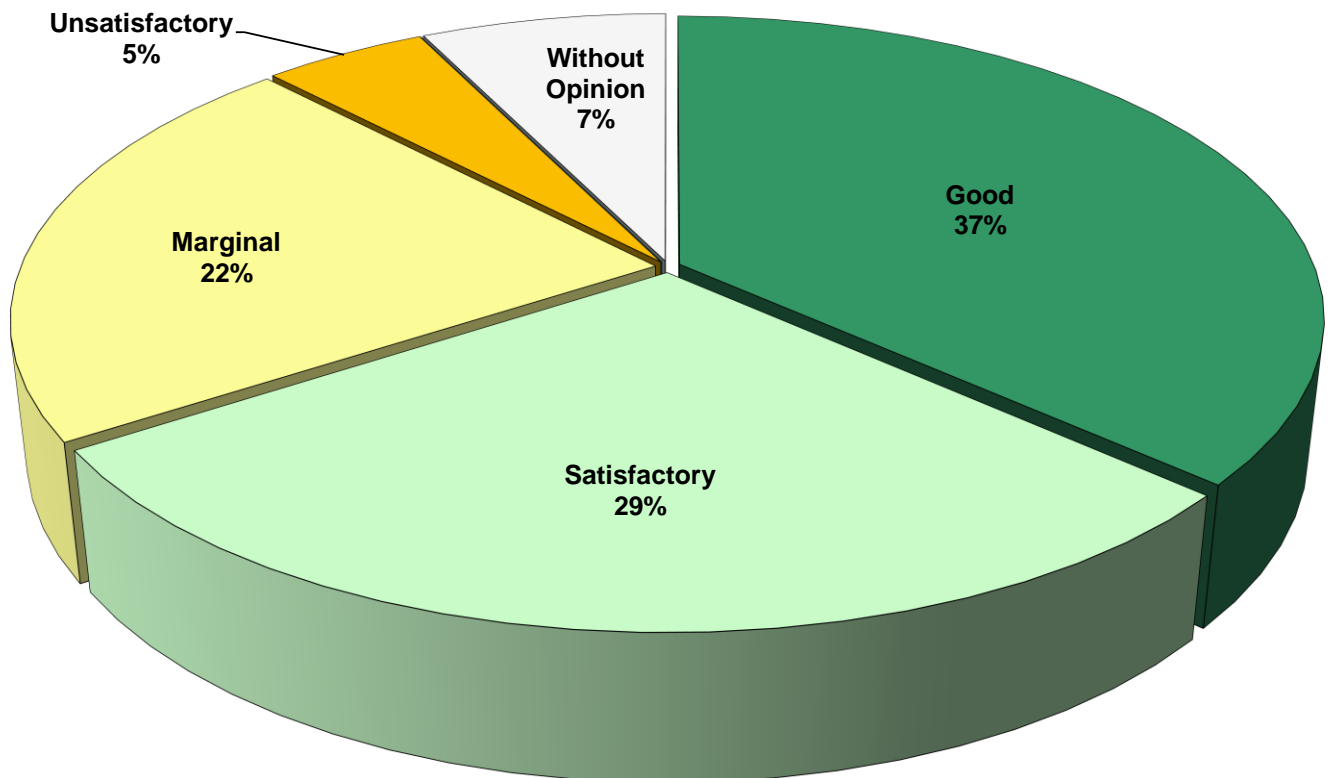
* NB Majority of no longer required recommendations relate to schools converting to academies.

Opinions 2019/20 and 2018/19

Summary of Audit Reports/Opinions: 2019/2020 (35 issued)



Summary of Audit Reports/Opinions: 2018/2019 (41 issued)



**Framework for Internal Audit Annual Opinion:
(Based upon the assurance levels assigned during 2019/20)**

Assurance statement to be reported in audit report	Detailed definition of level of assurance.
It is my opinion, based upon the work undertaken during the year that the level of assurance provided on the overall adequacy and effectiveness of the City Council's control environment is good .	From the evaluation and testing of the systems examined during 2019/20 there appears to be a good control environment in which all recommendations made by internal audit have been addressed and all agreed actions executed. There are no control issues identified for inclusion in the Annual Governance Statement.
It is my opinion, based upon the work undertaken during the year that the level of assurance provided on the overall adequacy and effectiveness of the City Council's control environment is satisfactory .	From the evaluation and testing of systems during 2019/20 there appears to be a satisfactory level of control. However, some control failings have been identified which are being addressed by senior managers. Additionally, assurances have been given by the appropriate chief officer(s) that controls are being improved. There are no significant control issues identified for inclusion in the Annual Governance Statement.
It is my opinion, based upon the work undertaken during the year that the level of assurance provided on the overall adequacy and effectiveness of the City Council's control environment is marginal .	From the evaluation and testing of systems during 2019/20, a number of weaknesses have been identified, which make it difficult to place reliance on the overall operation of the internal control framework. Assurance has been given by the appropriate chief officer(s) that the actions required to improve the overall adequacy and effectiveness of the City Council's internal control environment are being taken. This will be recorded in the Annual Governance Statement.
It is my opinion, based upon the work undertaken during the year that the level of assurance provided on the overall adequacy and effectiveness of the City Council's control environment is unsatisfactory .	From the evaluation and testing of systems during 2019/20, a number of significant weaknesses have been identified which make it difficult to place reliance on the overall operation of the internal control framework. Significant actions are required to improve the overall adequacy and effectiveness of the City Council's internal control environment and will be recorded in the Annual Governance Statement.
It is my opinion, based upon the work undertaken during the year that the level of assurance provided on the overall adequacy and effectiveness of the City Council's control environment is unsound .	From the evaluation and testing of the systems examined during 2019/20, one or more fundamental systems have been identified as having major absences or weaknesses which are not being addressed; and therefore places the City Council's internal control environment at risk and will be recorded in the Annual Governance Statement.

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Open Report

City of
Stoke-on-Trent

Audit Committee

28 May 2020

Audit Committee Work Plan

Report of	City Director
Report Author	Nick Edmonds, Assistant Director, Finance and S151 Officer Clare Potts, Strategic Manager, Audit and Fraud
Type of Decision	Regulatory Decision
Cabinet Member	Cabinet Member for Corporate Resource, Strategy and Partnerships
Wards Affected	No Ward Implications

Stronger Together Priorities and how they are applicable:

A innovative and commercial council, providing effective leadership to help transform outcomes

A clear and transparent work programme provides continued assurance to stakeholders and those considering engaging with the council that the Audit Committee is discharging its duties in line with its terms of reference as set out within the Constitution.

1.0 Reason and Purpose of Report:

1.1	To plan and prioritise the work of the Committee by outlining to members the reports that are currently scheduled to be provided to future meetings as set out in the work programme attached at Appendix A.
1.2	It is important that the Committee receives the correct information to accurately discharge its functions. Members may wish to supplement the programme with further work arising through new developments. This process contributes to the running of an innovative and commercial council, providing effective leadership to help transform outcomes.

2.0 Recommendation(s):

2.1	That the contents of the report be agreed and that the work planner continues to be updated accordingly.
-----	--

3.0 Summary of Main Points:

3.1	The work programme sets out the reports that are currently scheduled to come to the Committee during the current and future years. It will be presented for consideration at each meeting of the Committee and will be updated in advance of future meetings.
3.2	Due to the covid-19 emergency no Audit Committee was held in April 2020. All relevant items from the April agenda will therefore to be considered at the May meeting. The work plan at Appendix A has been updated to reflect these changes.

3.3	<p>The current work programme is attached at Appendix A. This incorporates not only statutory deadlines that apply to certain reports, for example the Statement of Accounts, but also key reports that support both the Committee's terms of reference and the Chartered Institute of Public Finance and Accountancy (CIPFA) good practice guides. The references in the right hand column have been included to identify how the reports relate to the Committee's functions which are outlined in the subsequent table. An additional column identifies the purpose of each report. Officers are continuing to review the reports listed for future meetings in order that the Committee's workload is appropriately aligned to its terms of reference and to ensure that the Committee operates in the most efficient way.</p>
3.4	<p>Members are asked to consider the attached programme and agree to receive updates as appropriate.</p>

Technical Appendix:

List of Background papers <i>(information not already published):</i>	
None	
List the appendices included as part of this report:	
Appendix A – Work Programme	

Implications taken into consideration in this report *(Please list as separate appendix if required):*

Financial and Commercial:	
There are no financial implications associated with this report	
Legal:	
There are no legal implications associated with this report.	
Human Resources:	
There are no Human Resources implications associated with this report.	
Public Health and Public Services (Social Value) Act 2012:	
There are no Public Health and Public Services (Social Value) Act 2012 implications associated with this report.	
Equality Impact or Environmental Impact Assessments:	
There are no Equality Impact or Environmental Impact Assessment considerations associated with this report.	
Key Risks:	
<p>The key risk to be considered in noting the attached work programme is that the Committee does not receive the correct information to allow it to meet its terms of reference. The consequence of which is that opportunities to improve the governance arrangements are not identified or acted upon.</p> <p>The risk is managed through a combination of forward planning, periodic self-assessment by the Committee, consideration of issues raised by External Audit and regular review of the work plan. The opportunity to add to the work plan enables the Committee to assure itself that the risk identified above is within acceptable tolerances.</p>	

Options Considered:	
1.	That the Committee does not have a formal work programme. Not recommended as this would not assist the Committee in ensuring it is discharging its duties.
2.	Have a work plan for the next 12 months detailing the work to be undertake by the Committee and review it regularly. Recommended.

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Appendix A – Annual Audit Committee Plan

	Report	Author	Frequency	Meeting				Purpose of the Report	Committee Terms of Reference
				28 May 2020	29 July 2020	October 2020	January 2021		
1	Draft Statement of Accounts 2019/20	s.151 Officer	(Annual)		Pre July			Note	a) & b)
2	Final Statement of Accounts 2019/20	s.151 Officer	(Annual)		TBC			Approve	a) & b)
3	Statement of Accounts Accounting Policies 2019/20	s.151 Officer	(Annual)	✓				Note	b)
4	Treasury Management Monitoring Report	ADF/CA	(Quarterly)		✓ Y/e & Q1	✓ Q2	✓ Q3	Note	b)
5	Treasury Management Strategy 2021/22	ADF/CA	(Annual)				✓	Approve to Council	b)
6	Draft Annual Governance Statement 2019/20	s.151 Officer	(Annual)		Pre July			Note	b) & j)
7	Final Annual Governance Statement 2019/20	s.151 Officer	(Annual)		TBC			Approve	b) & j)
8	Internal Audit Charter 2020/21	ADF/AF	(Annual)	✓				Approve	c) & d)
9	Internal Audit Plan 2020/21	ADF/AF	(Annual)	✓				Approve	d)
10	Internal Audit Monitoring Report	ADF/AF	(Quarterly)		✓ Q1	✓ Q2	✓ Q3	Note	e) & j)
11	Management of Risk Audit (Update)	ADF/AF	(Periodic)	As required				Note	e) & j)
12	External Audit Annual Plan	EY	(Annual)	✓				Note	f)
13	External Audit Progress Report	EY	(Periodic)	As required				Note	f) & h)
14	Annual Audit Letter 2018/19	EY	(Annual)				✓	Note	f) & i)
15	Management of Risk Policy	ADF/AF	(Annual)				✓	Comment to Cabinet	g)
16	Strategic Risk Register	ADF/AF	(Annual)				✓	Note	g)
17	Counter Fraud Statement	ADF/AF	(Annual)			✓		Approve	g)
18	Counter Fraud Update	ADF/AF	(Half Yearly)		✓ y/e	✓ 1/2 yr		Note	g)
19	Counter Fraud, Corruption and Error Strategy	ADF/AF	(Annual)		✓			Approve	g)
20	Confidential Reporting Procedure	ADF/AF	(Annual)					Approve	g)

Appendix A – Annual Audit Committee Plan

	Report	Author	Frequency	Meeting				Purpose of the Report	Committee Terms of Reference
				28 May 2020	29 July 2020	October 2020	January 2021		
21	Confidential Reporting Monitoring	ADF/AF	(Annual)		✓			Note	g)
22	External audit findings	EY	(Annual)		✓			Note	f) & h)
23	External Audit Recommendations progress update	ADF/CA	(Periodic)	As required				Note	g)
24	Annual Internal Audit Report	ADF/AF	(Annual)	✓				Approve	j)
25	Roles and Responsibilities	ADF/AF	(Periodic)	As required				Note	j)
26	Audit Committee Annual Report	ADF/AF	(Annual)		✓			Approve	j)
27	Work Planner (every meeting)	ADF/AF	(Periodic)	✓	✓	✓	✓	Note	All

Key to above table:

Author:

ADF: Assistant Director - Finance & s151 Officer

CA: Corporate Accounting

AF: Internal Audit & Fraud Team

EY: Ernst Young, External Auditors

Terms of Reference:

- (a) To approve the Council's annual statement of accounts.
- (b) Discharge of the Council's functions under section 151 of the Local Government Finance Act 1972.
- (c) To advise the Council on appropriate arrangements for internal audit ensuring the independence, status and profile of the function.
- (d) To approve internal audit terms of reference, strategy, plan and performance.
- (e) To review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- (f) To consider the reports of external audit and inspection agencies and monitor management action in response to issues raised.
- (g) To consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, and seek assurance that action is being taken on issues identified by auditors and inspectors.
- (h) To ensure that there are effective relationships between external audit and internal audit, inspection agencies and other relevant bodies.
- (i) To review the external auditor's opinion.
- (j) To review the governance framework and to advise the Executive.