

# Audit & Standards Committee

6 March 2017

## Agenda

The Audit and Standards Committee will meet in **Committee Room 2, Shire Hall, Warwick** on **6 March 2017** at **14.00 p.m.**

**1. General**

**(1) Apologies**

**(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests.**

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with.
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the Code of Conduct. These should be declared at the commencement of the meeting.

**(3) Minutes of the Audit and Standards Committee meeting held on 17<sup>th</sup> November 2016 and Matters Arising**

## REPORTS TO BE CONSIDERED IN PUBLIC

2. **External Auditors Report - Annual Audit Plan and Audit Fee Letter for the County Council 2016/17**
3. **Early Approval of the Statement of Accounts – An Assessment of Warwickshire’s Preparedness**
4. **Self-Assessment**
5. **Complaints Process Update**
6. **Work Programme and Future Meeting Dates**

To note the work programme and future meeting dates to be held in Shire Hall at 10:00 a.m. as follows:

- Thursday 1<sup>st</sup> June 2017
- Wednesday 6<sup>th</sup> September 2017
- Thursday 2<sup>nd</sup> November 2017

7. **Any Other Business**
8. **Reports Containing Confidential or Exempt Information**

To consider passing the following resolution:

**‘That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972’.**

## EXEMPT ITEMS FOR DISCUSSION IN PRIVATE (PURPLE PAPERS).

9. **Consideration of the Exempt Minutes of the Audit and Standards Committee meeting held on 17<sup>th</sup> November 2016**

### **Membership of the Audit and Standards Committee**

**Councillors:** John Beaumont, Bill Gifford, John Horner, Chris Saint, Bob Stevens and June Tandy.

**Independent Members:** John Bridgeman CBE (Chair) and Bob Meacham OBE

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The public reports referred to are available on the Warwickshire Web  
[www.warwickshire.gov.uk/cmis](http://www.warwickshire.gov.uk/cmis)

For queries regarding this agenda, please contact:  
Ben Patel-Sadler, Democratic Services Officer  
Tel: 01926 736 118, e-mail: [benpatelsadler@warwickshire.gov.uk](mailto:benpatelsadler@warwickshire.gov.uk)

**DAVID CARTER**  
**Joint Managing Director**  
**Warwickshire County Council**  
**March 2017**

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The public reports referred to are available on the Warwickshire Web  
[www.warwickshire.gov.uk/cmis](http://www.warwickshire.gov.uk/cmis)



**Minutes of the meeting of the Audit and Standards Committee  
held on 17 November 2016**

**Present**

**Members:**

Councillors John Beaumont, Bill Gifford, John Horner, Chris Saint, Bob Stevens and June Tandy

**Independent Members:**

John Bridgeman CBE (Chair)

**Officers:**

John Betts, Head of Finance  
David Carter, Strategic Director, Resources Group  
Sarah Duxbury, Head of Law and Governance  
Jane Pollard, Legal Services Manager  
Virginia Rennie, Strategic Finance Manager  
Garry Rollason, Chief Risk and Assurance Manager  
Ben Patel-Sadler, Democratic Services Officer

**External Representatives:**

Grant Patterson, Grant Thornton – Auditors

**1. General**

**(1) Apologies**

Apologies were received from Bob Meacham OBE.

**(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests**

None.

**(3) Minutes of the meeting of the Audit and Standards Committee held on 8 September 2016**

At page five of the minutes the Committee agreed to make an amendment to read 'The External Auditors informed the Committee that current investments in relation to the Pension Fund were performing satisfactorily'.

The Committee agreed that an agenda item should be added to the future Work Programme to provide members with an update in relation to Adult Social Care.

It was agreed that the minutes be signed by the Chair as a true and accurate record.

## **REPORTS TO BE CONSIDERED IN PUBLIC**

### **2. External Auditors Annual Audit Letter 2015/16**

Grant Patterson, Grant Thornton – Auditors introduced the report and informed the Committee that the Annual Audit Letter summarised all of the work completed as part of the 2015/16 annual audit along with a brief update on any issues since the last report to the Committee in September 2016.

Members noted that the Letter presented an unqualified opinion – at the present time overall certification could not be issued due to the External Auditors working through an objection which had been made by a member of the public. The Committee noted that progress was being made with regards to working through the objection. At the request of the Committee, Grant Thornton agreed to share the criteria used for determining whether or not a complaint was vexatious. Members noted that guidance was available on the External Auditor's website for members of the public in relation to how to make a complaint.

Grant Patterson informed the Committee that the most significant risk to the Council at the present time (in the opinion of the External Auditors) was the £67 million of savings which needed to be made by the authority over the next three years.

The Committee then discussed the CIPFA guidance which indicated that all local authorities would need to include a valuation of their highways infrastructure in their 2016/17 accounts. Virginia Rennie, Strategic Finance Manager informed the Committee that the inclusion of Warwickshire highways in terms of assets of the Council was likely to add around £7 billion to the balance sheet. It was important to note that this valuation did not mean that the Council had accumulated an additional £7 billion as usable income – it was merely a valuation placed on the highways located within the county. The Council was required to include a highways valuation in its 2016/17 accounts due to the IFRS accounting requirements which the Council adhered to. The Committee commented on the additional administrative burden that this placed on the Council with no readily identifiable benefit. Members noted that recent guidance had indicated that implementation would be delayed nationally by a year.

The Committee noted that this audit had been a good one with no significant issues identified.

#### **Resolved:**

The Committee agreed to note the report.

### **3. External Auditors Progress and Update Report**

Grant Patterson, Grant Thornton – Auditors introduced the report and informed the Committee that page four of the letter outlined the work which had been completed by the External Auditors to date.

The Committee noted that the External Auditors had issued unqualified opinions on the Council's financial statements and Value for Money Conclusion on 23 September 2016 following the Council's approval of the financial statements on 22 September 2016.

Members were informed that the External Auditor's had recently launched a new website which focussed more on ease of access for users.

The Committee expressed interest in the initiatives being pursued nationally around mental health in the wider context of partnership working.

**Resolved:**

The Committee agreed to note the report.

**4. Corporate Governance Framework**

Jane Pollard, Legal Services Manager introduced the report and informed the Committee that CIPFA had revised their framework and guidance (Delivering Good Governance in Local Government) and therefore the opportunity had been taken to review the Council's code and align it with the new guidance. The Committee noted that the main changes were the positioning of sustainable, social and environmental outcomes as a key focus of governance processes and structures. CIPFA considered that the focus on sustainability and the links between governance and public financial management were crucial in these times of austerity and underpinned the need for local authorities to focus on long term solutions. The framework provided guidance to local authorities which they may adapt as they saw fit.

**Resolved:**

The Committee agreed to endorse the revised Corporate Governance Framework set out in Appendices B and C for onward submission to Cabinet.

**5. Whistleblowing Policy**

Jane Pollard, Legal Services Manager introduced the report and informed the Committee that the Council's existing Policy had been updated to reflect the changes to the law on protected disclosures and the statutory Duty of Candour which applied to the Council as a provider of care services.

The Committee noted that work had been undertaken by officers to simplify the existing Policy – there had not been any substantial changes made.

Members noted that no referrals had been made to Human Resources during the past two years under the existing Whistleblowing Policy. Referrals had been made using the Council's fraud hotline (some of which did not fall under the remit of the Whistleblowing Policy).

Members discussed the Council's Whistleblowing Policy where the following points were noted:

- There was a question as to whether the lack of whistle blowing cases indicated that the policy was working effectively or that staff were fearful of raising concerns.
- Some members of the Committee expressed a view that the Policy was too internally focussed and could be simplified in support of the whistleblower.
- Whilst some members of the Committee suggested that councillors could be included in the list of bodies/individuals in section 9 of the Policy, it was noted that the prescribed persons list, which includes MPs, was a government prescribed list, intended to cover external referrals.
- Some members commented that wherever possible whistleblowing concerns should be resolved internally and noted that operational management of staff was a matter for officers.
- Some members of the Committee expressed a view that there was scope to explore whether the charity Public Concern at Work (PCAW) could play a role.
- Some members of the Committee expressed a view that the wording of the Policy should be reviewed to ensure that its focus was on encouraging people to come forward with any concerns they might have.

**Resolved:**

The Committee agreed that officers should undertake more work in relation to the proposed revisions to the Whistleblowing Policy before it was to be brought back before to the Committee at a future date.

**6. Work Programme and Future Meeting Dates**

The Committee noted the work programme and future meeting dates to be held in Shire Hall at 10:00 a.m. as follows:

- Wednesday 1st February 2017
- Thursday 1st June 2017
- Wednesday 6th September 2017

**7. Any Other Business**

None.



**8. Reports Containing Confidential or Exempt Information**

It was resolved that members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972.

**EXEMPT ITEMS FOR DISCUSSION IN PRIVATE (PURPLE PAPERS)**

**9. Consideration of the Exempt Minutes of the Audit and Standards Committee meeting held on 8<sup>th</sup> September 2016**

**10. Internal Audit Progress Report**

The Committee rose at 11.05 am.

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Chair



## Audit & Standards Committee

6 March 2017

### External Auditors Report - Annual Audit Plan and Audit Fee Letter for the County Council 2016/17

#### Recommendation

The Audit and Standards Committee is asked to consider the Annual Audit Plan from the External Auditors for 2016/17, attached at Appendix A, and the Audit Fee Letter, attached at Appendix B for the County Council.

#### 1. Purpose of the Report

- 1.1. Our external auditors, Grant Thornton, have written to the Chief Executive, identifying the audit plan and the audit fees for the County Council, together with the rationale and scope for those fees.
- 1.2. The Audit Engagement Lead will attend the meeting to present the reports attached at **Appendix A and B**.

#### 2. Background Papers

- 2.1. None

	<b>Name</b>	<b>Contact Information</b>
Report Author	Virginia Rennie	vrennie@warwickshire.gov.uk
Head of Service	John Betts	johnbetts@warwickshire.gov.uk
Strategic Director	David Carter	davidcarter@warwickshire.gov.uk
Portfolio Holder	Alan Cockburn	<a href="mailto:cllrcockburn@warwickshire.gov.uk">cllrcockburn@warwickshire.gov.uk</a>

Elected Members have not been consulted in the preparation of this report.





# The Audit Plan for Warwickshire County Council

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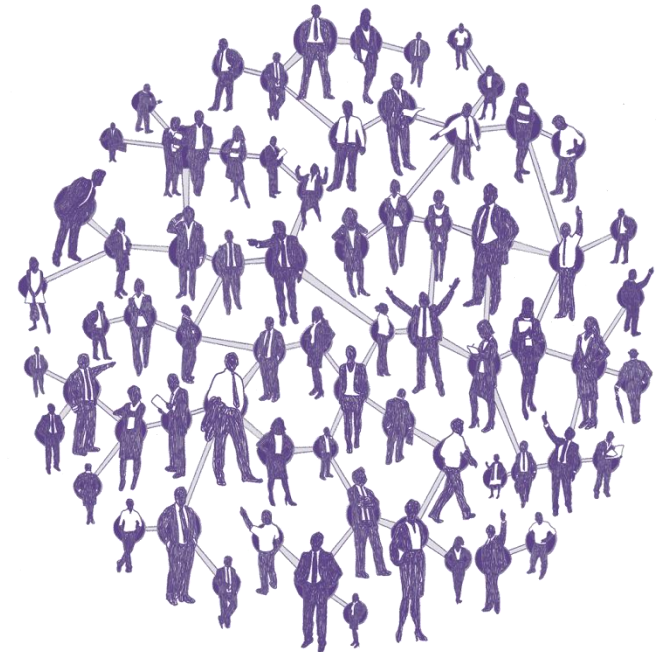
**Year ended 31 March 2017**

20 February 2017

**Grant Patterson**  
Director  
T 0121 232 5296  
E [grant.b.patterson@uk.gt.com](mailto:grant.b.patterson@uk.gt.com)

**Andy Reid**  
Senior Manager  
T 0121 232 5289  
E [andrew.s.reid@uk.gt.com](mailto:andrew.s.reid@uk.gt.com)

**Ellena Grant-Pearce**  
Executive  
T 0121 212 4000  
E [ellena.grant-pearce@uk.gt.com](mailto:ellena.grant-pearce@uk.gt.com)





Warwickshire County Council  
Shire Hall  
Warwick  
CV34 4RA

March 2017

Dear Members of Audit and Standards Committee

**Audit Plan for Warwickshire County Council for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Warwickshire County Council, this is the Council but we have determined that the Audit and Standards Committee is the sub-group with whom we shall communicate throughout the year and ensure the Council sees our Audit Plan and Audit Findings Report) an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

**Grant Patterson**  
Engagement Lead

Grant Thornton UK LLP  
Colmore Plaza  
20 Colmore Circus  
Birmingham  
West Midlands  
B4 6AT  
T +44(0)121 212 4000  
F +44(0)121 212 4014  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

**Chartered Accountants**

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# Understanding your business and key developments

## Developments

### Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

The Council had already made good progress in being prepared for the new arrangements before the deferral. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

### Integration with health sector

Sustainability and transformation plans (STPs) have become a key focus of NHS organisations and local authorities to develop 'place-based plans' for the future of health and care services.

### Governance

The Council has recently moved to a Joint Managing Director Model. It is important that updated governance arrangements and processes put in place are fit for purpose and future-proof.

## Key challenges

### Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care.

### Financial Pressures

Whilst the Council has a good recent record of delivery of savings, the 2016/17 forecast as at Q3 shows a shortfall on achievement of planned savings. Services which are unable to meet their savings targets are ones grappling with long term, complex issues and/or rising demand. Alternative savings options will form part of the One Organisation Plan 2020 and will require the Council to be clear about priorities.

### Key performance indicators

Measure	Planned	Forecast (Q3)
Net Revenue Expenditure	£259.5m	£252.8m
2016-17 Savings Plans	£16.26m	£14.13m
Capital Programme	£119.1m	£106.9m

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

## Our response

- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.
- We aim to complete all our substantive audit work of your financial statements by July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- The Council had already made good progress in its preparation for implementing the HNA requirements. We will continue our discussions with you, highlighting any areas of good practice or concern which we have identified in preparation for full implementation in 2017/18.
- We will review the Council's progress against its "One Organisational Plan 2014-18" and arrangements for preparing the One Organisational Plan 2020, including plans to address the financial position, as part of our work to reach our VFM conclusion.



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £13,907k (being 1.8% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £696k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
<b>Related Party Transactions</b>	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000
<b>Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements</b>	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

We have identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>For Warwickshire County Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other income and the existence of its associated receivables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Warwickshire County Council, we have determined that the risk of fraud arising from revenue recognition relating to Grants, Council Tax and NNDR can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Warwickshire County Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for these revenue streams.</p> <p>We cannot however, rebut the risk of fraud arising from revenue recognition relating to other income and associated receivables.</p> <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have walked through the system for determining the revenue recognition for fees and charges revenue.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• We will review the policy for recognising revenue and that the policy has been applied to transactions accordingly</li> </ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

Significant risk	Description	Audit procedures
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of journal entry process and the control environment around journal entries.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of unusual significant transactions</li> <li>• Selection of unusual journal entries for testing back to supporting documentation</li> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of unusual significant transactions</li> </ul>
<p><b>Valuation of property, plant and equipment</b></p>	<p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Audit procedures
<p><b>Valuation of pension fund net liability</b></p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>
<p><b>Changes to the presentation of local authority financial statements</b></p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>• We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>• We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<b>Operating expenses</b>	Year end creditors and accruals are understated or not recorded in the correct period.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Update systems documentation and walkthrough testing for operating expenses, in relation to the cut-off assertion, which we believe represents a risk of material misstatement</li> <li>• Carry out testing on a sample of operating expenses for the year</li> <li>• Carry out substantive testing over creditors and perform year end cut-off testing</li> <li>• Test the completeness of the subsidiary system interfaces and control account reconciliations</li> <li>• Undertaken cut off testing of purchase orders and goods received notes (both before and after year end)</li> <li>• Review the accruals process</li> <li>• Sample test creditor balances at 31/3/17</li> </ul>
<b>Employee remuneration</b>	Employee remuneration accruals are understated	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Update system documentation and walkthrough testing for employee remuneration, in relation to the completeness assertion, which we believe represents a risk of material misstatement</li> <li>• Carry out testing on a sample of payroll expenditure for the year</li> <li>• Review the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements.</li> <li>• Sample test payments made in April to ensure payroll expenditure is recorded in the correct year.</li> <li>• Review the monthly trend analysis of total payroll.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

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# Other risks identified (continued)

## Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Investments (long term and short term)
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

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# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies,
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We will communicate to you any significant risks from our initial risk assessment in our External Audit Progress Report, which will be presented to the Audit and Standards Committee held in July.

## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.



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# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

# Results of interim audit work

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

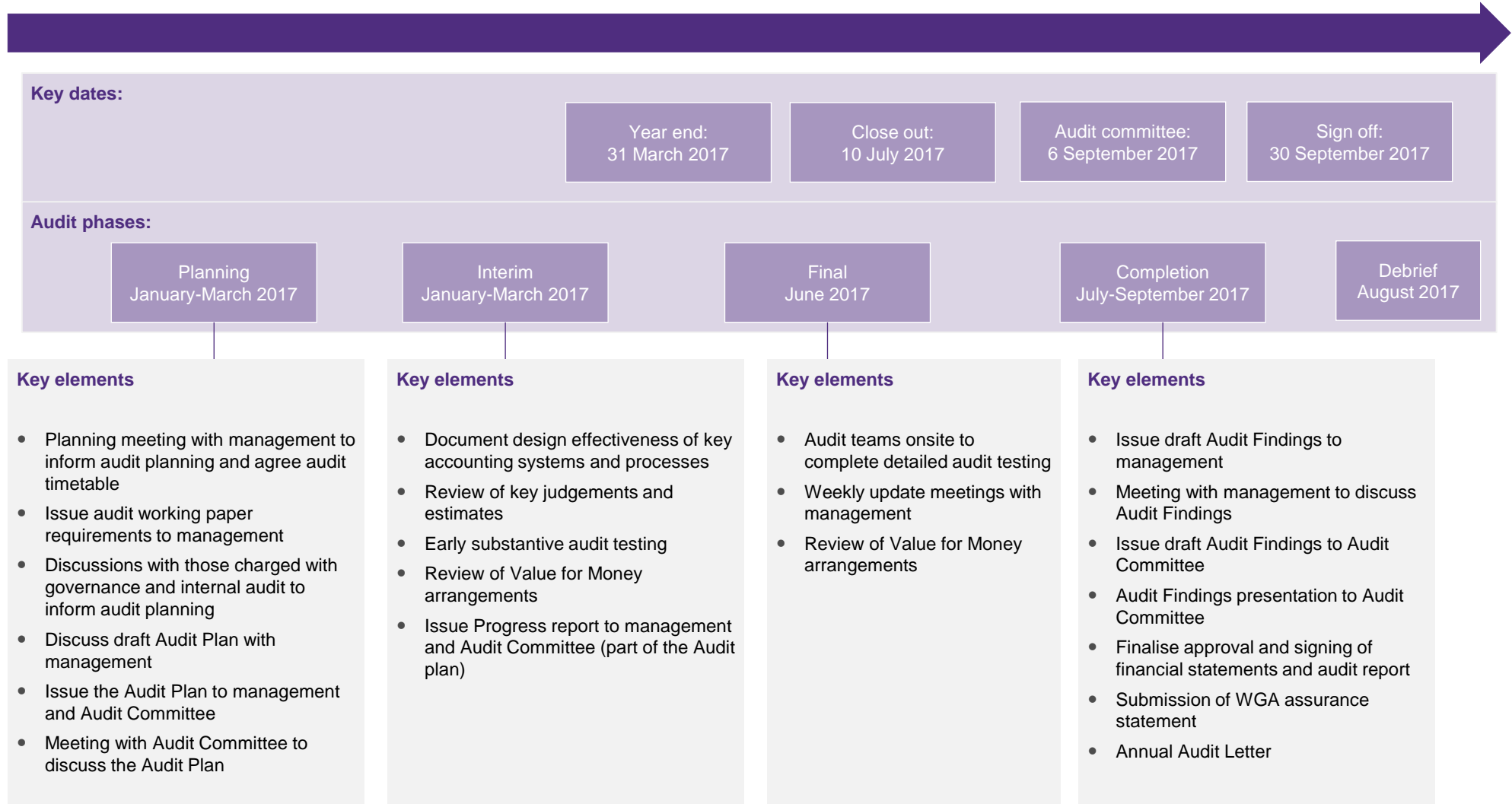
	<b>Work performed</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>The Council has not yet had a formal independent assessment undertaken of Internal Audit's compliance with the new Public Sector Internal Audit Standards but is planning to complete this by March 2018.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	Our work has not identified any weaknesses which impact on our audit approach. and we will carry out journal testing during our post-statements visit.

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	94,539
<b>Total audit fees (excluding VAT)</b>	<b>94,539</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Service	£
Access to Grant Thornton's CFO Insights Database (£10,000 per year for the years, 2015/16, 2016/17 and 2017/18)	10,000
Certification of Teachers' Pension return	4,200

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## What is included within our fees

- A reliable and risk-focused audit appropriate for the Council
- Feed back on your systems and processes, and identifying potential risks
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Audit Committee Progress Reports

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

# Communication of audit matters with those charged with governance (cont)

In addition to the areas covered on the previous page, we are required to consider the following in our discussions with those charged with governance (the Audit and Standards Committee)

Area of consideration	Current understanding based on planning and interim work to date
<b>Awareness of fraud or suspected fraud</b>	There are no material instances of fraud that have been identified during the year. Any significant suspected or alleged fraud are investigated by Internal Audit and reported to the Audit and Standards Committee on a regular basis.
<b>Views about the risks of fraud</b>	Although there is an on-going risk of fraud being committed against the Council arrangements are in place to both prevent and detect fraud. These include the regular review of arrangements and work carried out by Internal Audit as part of their annual plan. The risk of material misstatement of the accounts due to undetected fraud is low and this is consistent with the risk management processes that are in place within the Council.
<b>Awareness of 'whistleblower' tips or complaints</b>	Internal Audit are involved in the investigation of 'whistleblower' referrals or complaints with a potential financial impact. There are no material instances of fraud that have been identified during the year arising from 'whistleblower' tips or complaints.
<b>How the Audit &amp; Standards Committee provide oversight of management's fraud risk assessment process</b>	The Annual Governance Statement and Head of Internal Audit Opinion are formally presented to the Audit and Standards Committee on an annual basis.  The system of internal control is reviewed annually as part of the annual governance statement. The work plan of Internal Audit includes reviewing the operation of internal controls and appropriate segregation of duties. Internal Audit include fraud risk in their planning process.



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# Grant Thornton

An instinct for growth™

Mr Jim Graham  
Chief Executive  
Warwickshire County Council  
Shire Hall  
Warwick  
CV34 4RL

Grant Thornton UK LLP  
Colmore Building  
Colmore Circus  
Birmingham  
B4 6AT

T +44 (0)121 212 4000

[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

19 April 2016

Dear Jim

## **Planned audit fee for 2016/17 – Warwickshire County Council and Warwickshire Pension Fund**

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

### **Scale fee**

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset.

CIPFA/LASAAC is expected to confirm, subject to consultation, that the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom will adopt the measurement requirements of the CIPFA Code of Practice on Highways Network Asset.

PSAA have determined that there is no reliable and equitable way of establishing the volume of additional audit work, and therefore fees required, at each applicable local authority to gain assurance over the new financial reporting requirements. Therefore, fees for the additional work identified by auditors in 2016/17 will be subject to approval by PSAA under the normal fee variations process. PSAA expect that 'the additional fees for a highway authority will be in the range of £5,000 to £10,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use.

#### **Chartered Accountants**

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PSAA have proposed that 2016/17 scale audit fees (excluding work completed on the Highways Network Asset) are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £94,539.

The audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return (if applicable).

As outlined above, the fee for any additional work in respect of the Highways Network Asset is not included in this fee.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### **Value for Money conclusion**

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### **Pension Fund audit**

PSAA has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £23,892. Our work on the pension fund will be undertaken between June and July 2017. We use our specialist pension fund auditors for this work and as an accredited pension fund Engagement Lead I will head the audit team.

### Billing schedule

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2016	23,634
December 2016	23,635
March 2017	23,635
June 2017	23,635
<b>Total</b>	<b>94,539</b>

<b>Pension Fund audit</b>	
March 2017	23,892

### Outline audit timetable

We will undertake our audit planning and interim audit procedures in January – March 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion and work on the whole of government accounts return will be completed in July 2017.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	January – March 2017	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June – July 2017	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	June – July 2017	Audit Findings (Report to those charged with governance)	As above.
Whole of government accounts	July 2017	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	July 2017	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.



**Our team**

The key members of the audit team for 2016/17 are:

	<b>Name</b>	<b>Phone Number</b>	<b>E-mail</b>
Engagement Lead	Grant Patterson	0121 232 5296	<a href="mailto:grant.b.patterson@uk.gt.com">grant.b.patterson@uk.gt.com</a>
Engagement Manager	Andrew Reid	0121 232 5289	<a href="mailto:andrew.s.reid@uk.gt.com">andrew.s.reid@uk.gt.com</a>
Pensions Audit Manager	Helen Lillington	0121 232 5312	<a href="mailto:Helen.m.lillington@uk.gt.com">Helen.m.lillington@uk.gt.com</a>
In Charge Auditor	Ellena Grant-Pearce	0121 232 5397	<a href="mailto:Ellena.grant-pearce@uk.gt.com">Ellena.grant-pearce@uk.gt.com</a>

**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Mark Stocks, our Public Sector Assurance regional lead partner, via [mark.c.stocks@uk.gt.com](mailto:mark.c.stocks@uk.gt.com).

Yours sincerely



**Grant Patterson**  
Engagement Lead  
For Grant Thornton UK LLP

cc John Betts, Head of Finance

## Audit & Standards Committee

6 March 2017

### Early Approval of the Statement of Accounts – An Assessment of Warwickshire’s Preparedness

#### Recommendations

The Committee is recommended to:

- (i) Note the work going on and planned to ensure the authority is able to meet the earlier closure deadline for the approval of the 2017/18 accounts.
- (ii) Consider whether there were any aspects the Committee wish to raise with the wider organisation.

#### 1. Introduction and Background

- 1.1. On 17 February 2015 regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England to 31 July, effective from the 2017/18 financial year, as shown in the table below.

	2016/17	2017/18
Certification of the draft accounts by the chief financial officer	30 June	31 May
Approval and publication of the audited accounts	30 September	31 July

- 1.2. At a previous meeting of this Committee, where this was raised as part of the external auditor’s regular reports, it was suggested that it would be useful for the Committee to have an understanding of the County Council’s preparedness and to consider whether there were any aspects the Committee wished to raise with the wider organisation.

- 1.3. This report seeks to meet this request. It outlines the key factors that will support moves towards an earlier closure of the accounts and reports on our self-assessment of our preparedness, using a checklist developed by Grant Thornton.

## **2. Why are we doing this?**

- 2.1. An earlier date for the publication of the Statement of Accounts is part of the Government's wish to improve local government transparency and accountability. It is the Government's view that a more timely closedown process will increase public interest in local government accounts, especially when coupled with proposed moves to simplify the accounting statements and the requirements for the same public inspection period across all local government.
- 2.2. The move towards an earlier closedown of accounts is, for the Finance Service, part of a wider vision to transform and improve financial management and reporting arrangements across the organisation. Through the system and process changes that will be introduced it is hoped the requirement for an earlier closedown will support more rigorous in-year monitoring, improved financial controls and result in improved certainty and clarity about the financial position.

## **3. Key Factors**

- 3.1. The key factors for successfully advancing the closure of accounts are:

- Committed leadership
- Efficient and effective systems and processes
- Working with auditors
- Working with other partners

The factors identified are those found by Grant Thornton through surveys of those local authorities already meeting the earlier deadline. This section summarises the main issues under each of these factors.

### **3.2. Committed leadership**

Having the right culture within the organisation is as essential to achieving sustainable change in financial management and accelerating financial reporting as having robust plans in place to manage the process. The most common and critical factor for success is strong leadership, with senior officers and members understanding the plans and showing commitment to these.

It also requires a rigorous approach to project management with developed and implemented clear and robust project plans that are realistic about how long each of the required tasks takes, regular monitoring arrangements to ensure plans remain on track and effective arrangements for quality assurance and review.

Within Warwickshire our focus to date has been one of continuous improvement and the application of 'right first time' principles in completing tasks and preparing working papers throughout the financial year, involving all those routinely involved in the detail of the closedown process. The phase of the project focussed on the engagement of the wider organisation is due to commence after the 2016/17 closedown is complete.

### **3.3. Efficient and effective systems and processes**

To deliver a faster close we need to question the status quo at every stage, seeking to identify new and more efficient ways of working. This requires investment of the appropriate time and effort to:

- Improve the financial IT systems, maximising the extent of integration and automation between the general ledger and feeder financial systems.
- Reduce the number of manual processes and the need to create additional spreadsheets to support the preparation of the draft accounts.
- Maintain accounting records throughout the year through regular posting of routine transactions and timely reconciliation of control accounts.
- Regularly review in-year management reporting information.
- Put in place robust management arrangements to inform the greater use of estimation making sure the rationale for preparing these can be clearly disclosed in the financial statements and evidenced appropriately.

### **3.4. Working with auditors**

While local government bodies will need to change their financial processes to deliver against an earlier timetable, auditors will need to undertake and complete their work within a shorter timeframe as well. It is therefore critical we work with the auditors, in a spirit of partnership, to deliver earlier completion of the audit process. This means:

- Early dialogue with external auditors so that they can comment upon and agree any proposed methodology and timeframes.
- Reaching agreement on the approach and extent of electronic working papers.
- Ensuring any technical accounting issues are discussed and agreed well in advance of the preparation of the draft accounts.

### 3.5. Working with other partners

Whilst the production of the statement of accounts is viewed as essentially a finance activity, the process is reliant on the provision of information prepared by other experts – both internal and external – such as human resources, valuers, highways asset managers and actuaries as well as the accounts for any consolidated group entities. Each of these other parties are engaged with at an early stage, so that they understand the organisation's information needs and the timetable it is working to and are committed to deliver to this.

## 4. Self-Assessment

4.1. As part of their work on supporting authorities to successfully deliver an earlier closure of accounts Grant Thornton have produced a good practice checklist for authorities to use as a way to self-assess their current arrangements and identify where changes and improvements can be made. We have undertaken a self-assessment using the checklist and our self-assessment is attached at **Appendix A**.

4.2. The assessment shows that the authority has all the building blocks in place to meet the earlier closure deadline. Those areas where we are not or only partially meeting the recommended good practice are:

- The understanding, outside of those directly involved in the process, of the change. This has been a deliberate strategy whilst the focus has been on making progress in improving systems and processes. Engagement with senior management is planned for the next few months when we have a clearer picture of any specific investment to further systemise/automate processes that needs prioritising or support is needed to prioritise the work of those staff, from across the organisation, who contribute to the statement of accounts.
- The resilience of the process due to the reliance on a few individuals to complete critical content.
- A complete review of processes and procedures with a view to streamlining, standardising and automating these as far as possible.
- The in-year, timely completion of financial tasks and reconciliations to avoid additional procedures at year-end.
- Working with suppliers and contractors to ensure efficient year-end processing arrangements.

4.3. The feedback from those involved in the closedown process and the completion of this assessment is that the assessment has identified the right areas and that, across all of these areas, it is the closedown of accounts in



relation to maintained schools that is the highest priority as this is central to the critical path. Schools closedown is also the area where we struggle most in meeting the current closedown timetable and where most effort has been expended in improving systems and processes for the early closedown dry-run in 2016/17. It is hoped that the changes we have introduced will result in significant time savings in the overall closedown process.

## 5. Action Plan

5.1. As a result of both the self-assessment and other on-going work to improve financial management and reporting arrangements across the organisation an action plan to support the delivery of early closure has been drawn-up. This is set out below and the Committee is asked to note and comment on the Plan.

Action	Benefit
A review of the financial ledger chart of accounts to ensure that this is structured and mapped in the right way	This will enable financial reports and draft accounts to be generated directly from the financial system with minimal need for further manual intervention or adjusting journals, once generated.
Standardise processes and procedures as far as possible	This will enable a smoother consolidation of data, a higher quality of financial information across the authority and less dependency on individuals within departments to complete non-routine or service specific tasks.
General ledger and feeder systems reconciliations are prepared and reviewed on a regular basis and any reconciling items are investigated and resolved.	This will minimise the additional workload at the end of the year and support the development of a culture of seeing the closedown process as a “business as usual” task.
Keep suspense accounts to a minimum and ensure that these are checked and cleared on a regular basis.	This will minimise the additional workload at the end of the year.
Reconsider timing of March invoices and payments	This will enable creditor accruals to be based on well informed expectations of what will be received, can speed up the year-end procedure and minimise additional administrative tasks.
De-clutter the accounts	This will improve the ability of the reader of the accounts to understand relevant information, help achieve accelerated timelines and result in a higher quality publication

Action	Benefit
Review materiality and the use of estimates	This will speed up the year-end procedures, minimise additional administrative tasks and improve the understanding of the accounts. However, it needs to be noted that the greater use of estimation may result in more changes to the accounts as a result of the audit process but that this will be the result of further, more certain information becoming available rather than poor quality financial reporting initially
Report on the review of the 2016/17 closedown process to Corporate Board	This will ensure support for any further investment in financial systems and appropriate prioritisation of workloads is forthcoming
Improve the communication of requirements, timelines and the overall project plan to other parties, both internally and externally from other specialist sources, that contribute information for the statement of accounts	This will ensure there are no unnecessary blockages or delays where we are waiting for important information for the accounts
Identify our group relationships and seek consolidation information as early as possible	This will ensure timely consolidation of transactions and balances from the entities' financial statements and enable the auditors to obtain sufficient assurances that group arrangements are materially stated prior to the approval of the organisation's accounts and the signing of the audit opinion.

## 6. Summary

- 6.1. The report has outlined how accelerating the timetable for the preparation of the accounts will require changes to systems and processes that will take time to develop, implement and embed to ensure that the right systems and processes are in place and that officers have the capacity and skills to make the change a reality. It will require the commitment to change behaviours, ways of thinking and how people work. Facilitating this change will take leadership and oversight from senior finance officers and buy-in from across the organisation.
- 6.2. To make a success of the project, it is critical that it is not just led from within the finance team, but that plans are owned and delivered by officers

throughout the organisation, all of whom should understand the part they play. It will also mean committee diaries will need to be brought forward and elected members will need to understand why this is necessary.

- 6.3. Whilst this may at face value seem a significant task we are well down the road of being able to deliver to this earlier timetable. Key areas of concern and areas where we can make significant gains in time through automating processes and ensuring all reconciliations are kept up to date on an on-going basis are already in train. The dry-run being undertaken as part of the closure of the 2016/17 accounts will identify any remaining hot-spots that will flesh out the action plan for the next twelve months and be the focus of reporting to the organisation's wider management.

## 7. Background Papers

None

	<b>Name</b>	<b>Contact Information</b>
Report Author	Virginia Rennie	vrennie@warwickshire.gov.uk
Head of Service	John Betts	johnbetts@warwickshire.gov.uk
Strategic Director	David Carter	davidcarter@warwickshire.gov.uk
Portfolio Holder	Alan Cockburn	<a href="mailto:cllcockburn@warwickshire.gov.uk">cllcockburn@warwickshire.gov.uk</a>

Elected Members have not been consulted in the preparation of this report.

## Advancing Closure – Warwickshire Self-Assessment Good Practice Checklist

Key considerations	Yes/No	Comments
<b>Leadership and planning</b>		
Has the authority clearly defined roles and responsibilities across the organisation in relation to its financial reporting?	Yes	The closedown timetable sets clear responsibilities and deadlines for key tasks. These are discussed in advance and signed off by the Finance Managers Forum. There are number of risk areas that have been highlighted through this process that have a material impact on the accounts such as asset valuations, IT developments and the overall consolidation where we rely heavily on one person. Access to alternative specialist expertise is not always readily available.
Has the authority clearly communicated the statutory timetable and its commitment to faster closing, both to officers and members?	Partial	Senior management within the Finance Service are aware, as are key contacts in the other service areas that are involved in the process. Senior management within the Finance Service has signed up to the plans and is taking an active role in ensuring developments are followed through. The project is listed on the organisation's project hub which is reported to both Corporate Board and Group Leadership Teams on a regular basis.
Has senior management signed up to the plans and taking an active role to promote its importance and the benefits that will result?		
Are members and senior management routinely updated on the progress made in delivering the authority's closedown plans?		
Has the authority ensured that audit committee and council meetings are brought forward to reflect the earlier timetable?	Yes	Democratic Services are aware of the revised dates required and have built these into the draft timetable for the 2018/19 year. Both the Audit and Standards Committee and Council will be scheduled for the last week in June.

Key considerations	Yes/No	Comments
<b>Project planning</b>		
Has the authority appointed a project manager, of sufficient seniority within the finance team, to oversee the delivery of the project?	Yes	
Have the necessary staff resources been identified to support the delivery of the project and the impact this will have on their other responsibilities?	Yes	Additional temporary staff to provide additional capacity has been provided. Also, access to specialist IT services to take forward some of the system changes and automation of processes has been made available.
Are all individuals aware of their responsibilities for preparing each section/note of the accounts?	Yes	The closedown timetable sets clear responsibilities for key tasks. These are discussed in advance and signed off by the Finance Managers Forum. "Champions" for each element of the accounts have been identified.
Has a realistic project plan been developed, setting out detailed timelines for completion of tasks, who will complete these and contingency for unforeseen issues?	Yes	The closedown timetable sets clear responsibilities and deadlines for key tasks. There is only minimal contingency for those tasks identified as being on the critical path. Delays reduce the time built into the plan for quality assurance.
Has the authority identified the potential blockages and barriers in the delivery of its plans and identified actions to address these?	Yes	IT support to systemise and automate processes in relation to schools closedown has been provided. Schools closedown and asset valuations
Is this project plan supported by clear financial procedures and closedown instructions to ensure clear communications to officers of requirements?	Yes	Action plans for individual tasks show start dates, dependencies, duration, critical paths and buddies so that we can address the issue of resilience and contingency arrangements. There is still scope to roll this approach out more widely.
Has the authority identified opportunities to rotate or upskill a wider group of individuals within the organisation to provide resilience for unforeseen loss of key staff and develop skills across the finance team?	No	The lack of resilience in some areas is an identified risk within the project plan. This is particularly true for those areas outside of the Finance Service that have a key role in the production of the statement of accounts. Within a climate of decreasing capacity identifying opportunities to rotate or upskill a wider group of individuals will continue to be difficult.
Has the authority established a committee or group to routinely monitor the progress against plans and ensure these stay on track?	No	This is managed as part of the routine line management of those responsible for delivering the earlier closedown. There are ad hoc reports on progress to the wider finance community.

Key considerations	Yes/No	Comments
<b>Systems and processes</b>		
Has the authority reviewed the outcomes of the previous year's accounts preparation processes and identified where changes or improvements can be made?	Yes	A review is undertaken each year and discussed with finance managers supporting all services. This has identified the key areas where changes to processes are required if the earlier timetable is to be met.
Has the authority reviewed all manual procedures and financial processes and considered where there is scope to automate and/or standardise these across the organisation?	Partial	Procedures and processes in the key areas of concern have been reviewed and work is currently on-going to automate these as far as possible, with the 2016/17 closedown being used as a dry run.
Has the authority reviewed its financial procedures and tasks to identify scope for streamlining, modification and improvement?	Partial	This is part of the wider vision to transform and improve financial management and reporting arrangements across the organisation and has not been undertaken specifically to deliver an earlier closedown.
Have all routine financial tasks been performed on a timely basis throughout the year to avoid additional procedures required at year end?	Partial	A number of key tasks are now being done throughout the year i.e. suspense account reconciliation. System reports have been developed to facilitate this.
Has the authority reviewed its monthly management reporting processes to identify opportunities to align these more closely to the year-end processes?	Partial	A review of monthly management reporting is currently being undertaken to support the monitoring of the delivery of the One Organisation Plan 2020. Any opportunities to align these processes more closely to the year-end processes will be taken.
Has the authority undertaken an in year interim hard close of its accounts to identify any possible issues early?	No	It is planned that an earlier closedown can be achieved without an interim hard close. This will be reviewed after our dry run this year for the 2016/17 closedown.
Is the authority up to date on expected accounting changes in the financial reporting framework and considering the impact of these as early as possible?	Yes	Key staff attend training on any accounting changes and publications of the requirements of accounting standards are routinely purchased. Project plans are put in place to implement any changes and reports brought to Audit and Standards Committee where approval of any changes to accounting policies is required. All material changes are agreed with our auditors in advance.
Has the authority reviewed its accounting policies to reflect any changes and ensure that these are tailored and appropriate for its circumstances? Have these policies been shared and discussed with the audit committee?	Yes	A full review was undertaken last year as part of de-cluttering and streamlining the accounts. Material accounting policy changes are discussed with the Committee before the end of the financial year. In recent years this has included school assets and the highways maintenance infrastructure code.

Key considerations	Yes/No	Comments
Has the timetable and procedures built in sufficient time for quality assurance checks of the accounts and supporting working papers?	Yes	
Has the authority identified those areas where significant judgements and use of estimates are required and identified the basis on which these will be prepared and the data needed to support them?	No	The dry run of early closedown this year will confirm the extent to which changes to systems and processes will deliver early closedown without the need for additional estimation and judgements. Following the review of the 2016/17 closedown where there are areas of concern this will be a key area of focus.
<b>Managing relationships with others</b>		
Has the authority identified those areas where information is required from other parties and ensured that this is incorporated into the project plan?	Yes	The requirements from HR, valuers, legal, actuaries, the Warwickshire Pension Fund and Performance (for the narrative statement) have been identified. The project plan identifies the earlier dates by which information would be required but whether any changes to systems/processes are required to meet them is still being explored.
Has the authority conducted an assessment of its likely group relationships and other external entities and agreed with its subsidiaries/associates/joint arrangements when group consolidation information or disclosures will be provided?	Yes	This is reviewed on an annual basis. Currently there is no requirement to produce group accounts. This is likely to change for 2017/18 with the establishment of the Catering company. Our requirements will be specified as part of the agreements setting the company up.
Has the authority spoken to its suppliers and contractors to ensure that arrangements for year-end processing and payment of invoices are managed effectively?	No	This will form part of the planning around the increased use of estimation and is specifically an issue around the value of work completed on major capital schemes
Has the authority discussed information requirements and timetables with other partner public bodies relating to any shared services and partnership working arrangements?	Yes	Initial discussions with the districts/boroughs re council tax and business rates information have taken place. Further work is still needed but all are faced with the same requirement to bring the production of the accounts forward and are developing their own project plans.

Key considerations	Yes/No	Comments
<b>Working effectively with auditors</b>		
Has the authority shared its closedown project plans with its auditors and agreed key dates and milestones?	Yes	These discussions form part of the annual audit planning process.
Has the authority discussed and agreed respective responsibilities and set clear expectations on the accounts preparation and audit processes?	Yes	Roles, responsibilities and timetables are part of the bespoke list of audit requirements is agreed as part of the interim audit before the end of the financial year.
Does the authority communicate with its auditors on a regular basis to discuss emerging accounting issues and progress against plans?	Yes	The chief finance officer and the authority's senior management have quarterly meetings with the auditors. The audit manager is also in regular contact with those responsible for the production of the statement of accounts.
Has the authority conducted a thorough review of its accounts and identified and discussed with its auditors those areas where there is scope to de-clutter and remove unnecessary notes and disclosures?	Yes	The Audit and Standards Committee have previously commented to the extent to which we have been able to reduce the size of the statement of accounts. We also undertake an annual review to identify areas where further de-cluttering and the removal of unnecessary notes and disclosures is possible.
Has the authority discussed and agreed its working paper requirements to support the completion of the audit?	Yes	The bespoke list of audit requirements is agreed as part of the interim audit before the end of the financial year.
Has the authority and auditors reflected staff availability and holiday commitments in the work timetables?	Yes	This is a standard part of our preparation for the annual audit.
Has the authority discussed with its auditor where audit procedures can be commenced early and financial records that can be tested at the interim audit?	Yes	A detailed plan and information requirements for testing at interim audit is agreed. This includes payroll, income and expenditure, grants, opening balances, restatements
Has the authority provided an early copy of the skeleton accounts and disclosures to allow opportunity for review of updated disclosures in advance of the year end?	Yes	These are provided as part of the interim audit
Has the authority met with its auditor to reflect on the previous year's audit process and identify areas that can be changed or improved?	Yes	This is part of the routine review that happens at the start of planning for the following year's audit



## **Audit & Standards Committee**

**6 March 2017**

### **Self-Assessment**

#### **Recommendation(s)**

Considers and comments on the outcomes of the Cipfa Audit Committees survey and the Audit & Standards Committee Self - Assessment exercise

#### **1.0 Key Issues**

- 1.1 In November 2016 Cipfa published the results of a survey of local authority and police audit committees effectiveness. The results of the survey are attached as Appendix A. The Cipfa survey also includes a comparison of the differing views between Chairs, Heads of Internal Audit and others.
- 1.2 Also in November 2016 this Committee carried out its own self-assessment of effectiveness against the Cipfa evaluation framework in the 2013 Guidance. The results of that exercise are attached as Appendix B.
- 1.3 The two sets of results do not entirely align as the Cipfa survey has categories which are not exactly the same as the evaluation framework in the Cipfa Guidance 2013.

#### **2.0 Effectiveness of Audit Committees**

- 2.1 Both the survey and the self-assessment are based on people's perceptions rather than hard evidence. There is a considerable amount of correlation between the outcomes of the survey of local authorities and the self-assessment. The themes where both scored relatively highly in the survey were
  - Supporting the internal audit process
  - Supporting the external audit process
  - Following up outstanding actions and improvement plans
  - Providing accountability to full council
- 2.2 These are reflected in the self-assessment mainly under the themes
  - Supporting the quality of the internal audit activity
  - Supporting the development of robust arrangements for ensuring value for money

- Contributing to the development of an effective control environment
- Promoting the principles of good governance and their application to decision making
- Helping the authority to implement the values of good governance

2.3 The themes identified as most needing improvement in the Cipfa survey relate to partnerships and promotion of the committee’s work to external and internal stakeholders. This is to a certain extent reflected in the self-assessment under the following themes which received more positive scores than those in the survey

- Aiding the achievement of the authority’s goals and objectives
- Promoting effective public reporting to stakeholders and the local community

2.4 The specific ways in which the Committee felt it could strengthen its own effectiveness were

- Publication of an annual report about the work undertaken by the Committee
- A round up of the outcomes of key external inspections
- Improved monitoring of the implementation of external audit recommendations
- Refresh of the Corporate Risk Register

2.5 In addition the Committee could carry out an annual self-assessment and review from time to time the appropriateness of arrangements to promote good governance.

## Background papers

None.

	<b>Name</b>	<b>Contact Information</b>
Report Author	Jane Pollard	<a href="mailto:janepollard@warwickshire.gov.uk">janepollard@warwickshire.gov.uk</a> Tel: Phone number 01926 412565
Head of Service	Sarah Duxbury	
Strategic Director	David Carter	
Portfolio Holder	Kam Kaur	

The report was circulated to the following members prior to publication:

Local Member(s): N/A

Other members: N/A

# CIPFA Survey on Local Authority and Police Audit Committees: Effectiveness

Briefing from the CIPFA Better Governance Forum

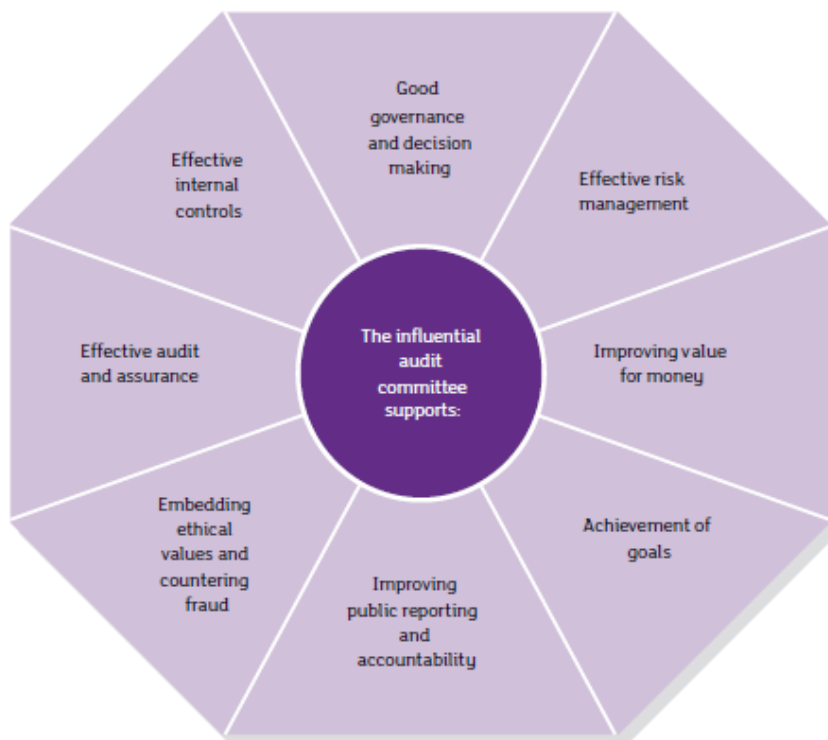
**November 2016**

This briefing contains results from the survey on the views on effectiveness of local authority and police audit committees. It is one of a series of briefings on the survey results, all of which are available to download from the CIPFA website.

## Assessing Effectiveness

The survey did not contain any metrics to identify the relative level of effectiveness of the committees. It asked for views of effectiveness from the differing perspectives of the audit committee chair and the head of internal audit (HIA) for the local authority or chief financial officer (CFO) for the police and crime commissioner (PCC). The results therefore depend on the perceptions of respondents, but they do enable us to draw conclusions on the activities of the committees and where they are most successful.

Audit committees add value to their organisations by supporting improvement and highlighting areas of concern. Their operations are typically focused on a range of objectives concerned with internal control, governance, risk and audit. In the CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police* (CIPFA, 2013) this was demonstrated in the following diagram:



## Self-assessments

As part of the survey we asked how many audit committees had undertaken a self-assessment in the past year, either internally or externally facilitated. Few committees had had an external evaluation: 6% of local authorities and 5% of police. A much higher proportion had undertaken an internal self-evaluation however: 50% of local authorities and 68% of police. Such reviews should help organisations to evaluate the committee's success in fulfilling its terms of reference, meeting expectations and adding value.

Depending on the objectives of the review there are resources available to support self-assessment including the CIPFA publication. From the comments made it has assisted some organisations.

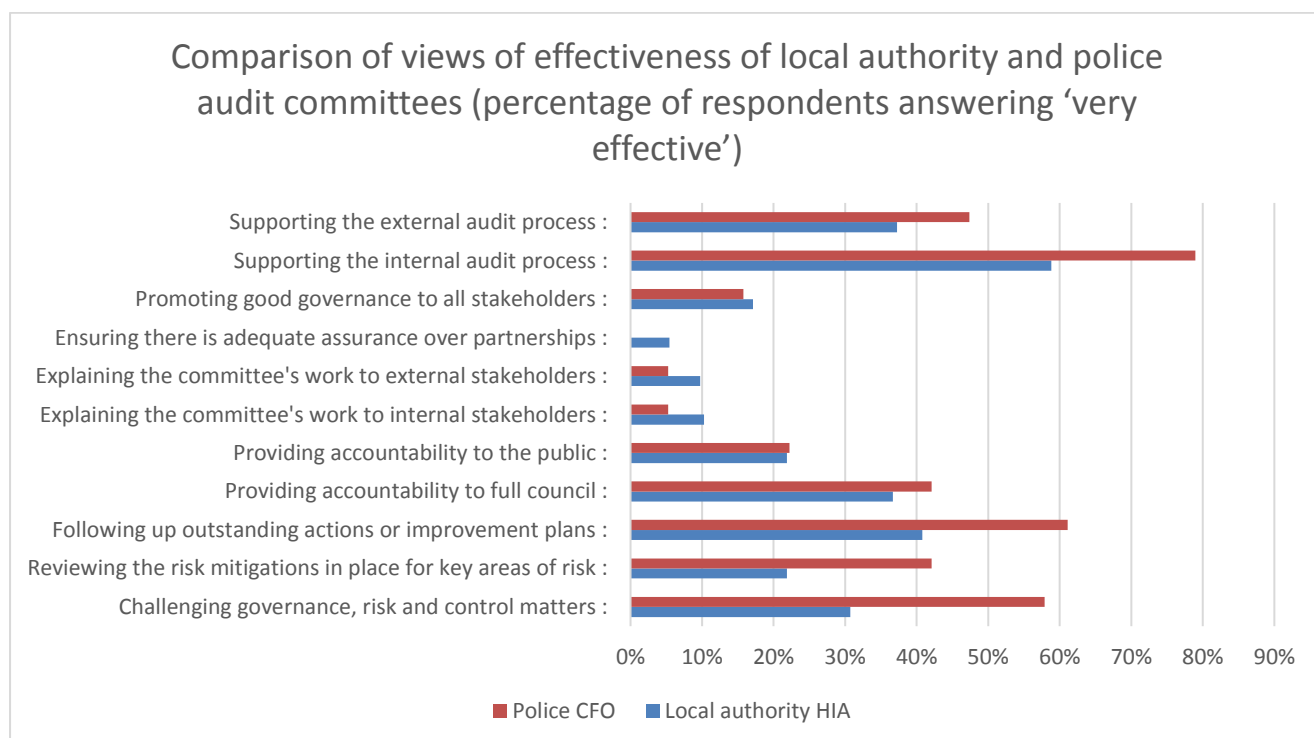
- *CIPFA guidance and the PSIAS are very helpful in persuading the organisation as to 'the art of the possible' and the roles that the audit committee, and audit team, can undertake on behalf of the organisation.*

Head of Internal Audit, English metropolitan district council

## Views on Effectiveness

We asked all respondents how effective they thought the audit committee was on a range of areas. This enabled us to contrast the views of the audit committee chairs with those of the HIA or CFO. For the HIA we were also able to compare the views with those from the 2011 survey which asked a similar question.

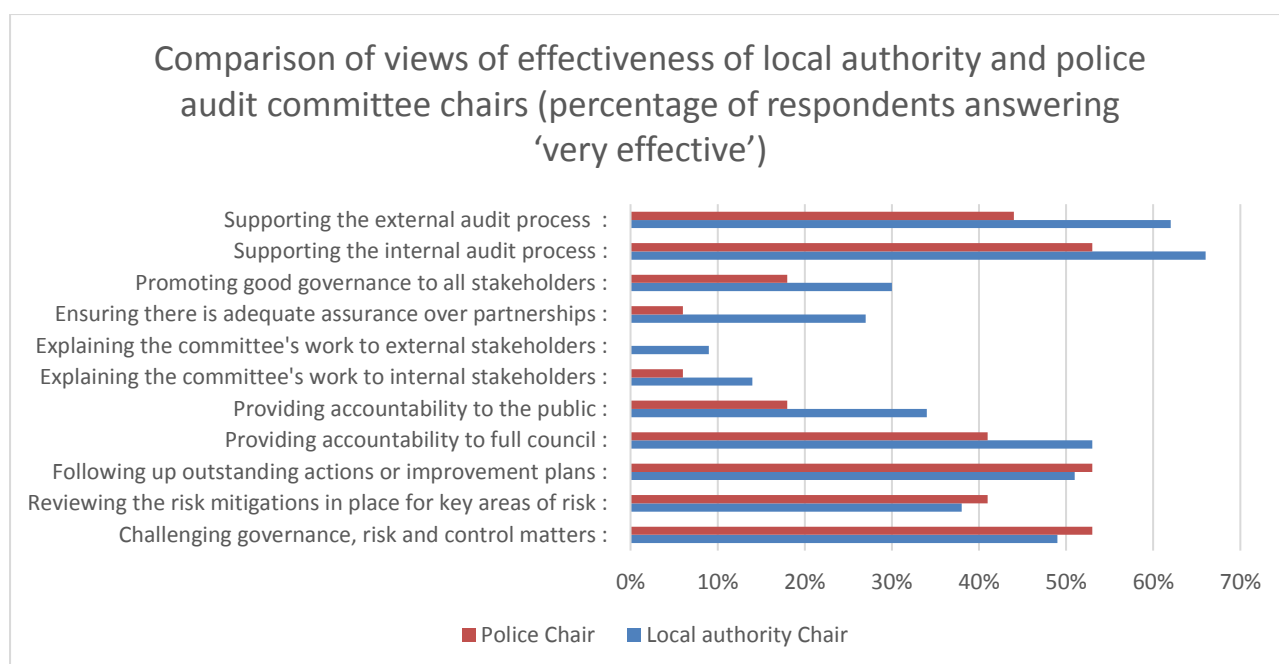
In the 2016 survey we can compare the views of effectiveness of police audit committees with local authority ones. Since the committees are constituted in very different ways, with the police committees having a membership of appointed independent members and local authority committees being primarily elected representatives, the survey presents a unique opportunity.



Based on the perceptions of key officers interacting with the audit committee, it would appear that police audit committees are more likely to be judged as “very effective” than local authority audit committees are.

In comparison to the local authority responses there is a similar profile of stronger and weaker areas, but overall the police audit committees seem to score more highly. One area where the police audit committee is considered to be more effective than the local authority equivalent is when reviewing the risk mitigations in place for key areas of risk. Twenty two percent of local authority HIAs scored this very effective. Forty two percent of police CFOs viewed their committees to be very effective.

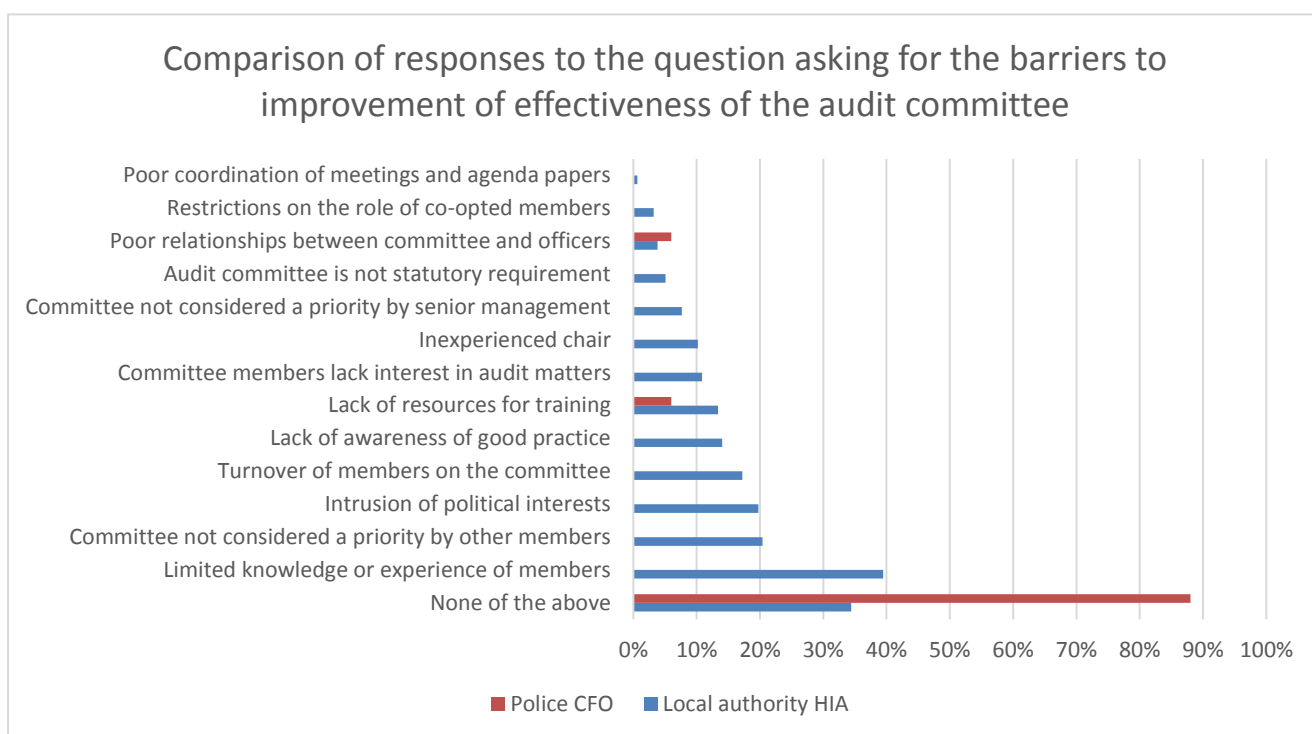
There is not the same distinction between the views of chairs however. Local authority chairs are more positive than police chairs about their own effectiveness.



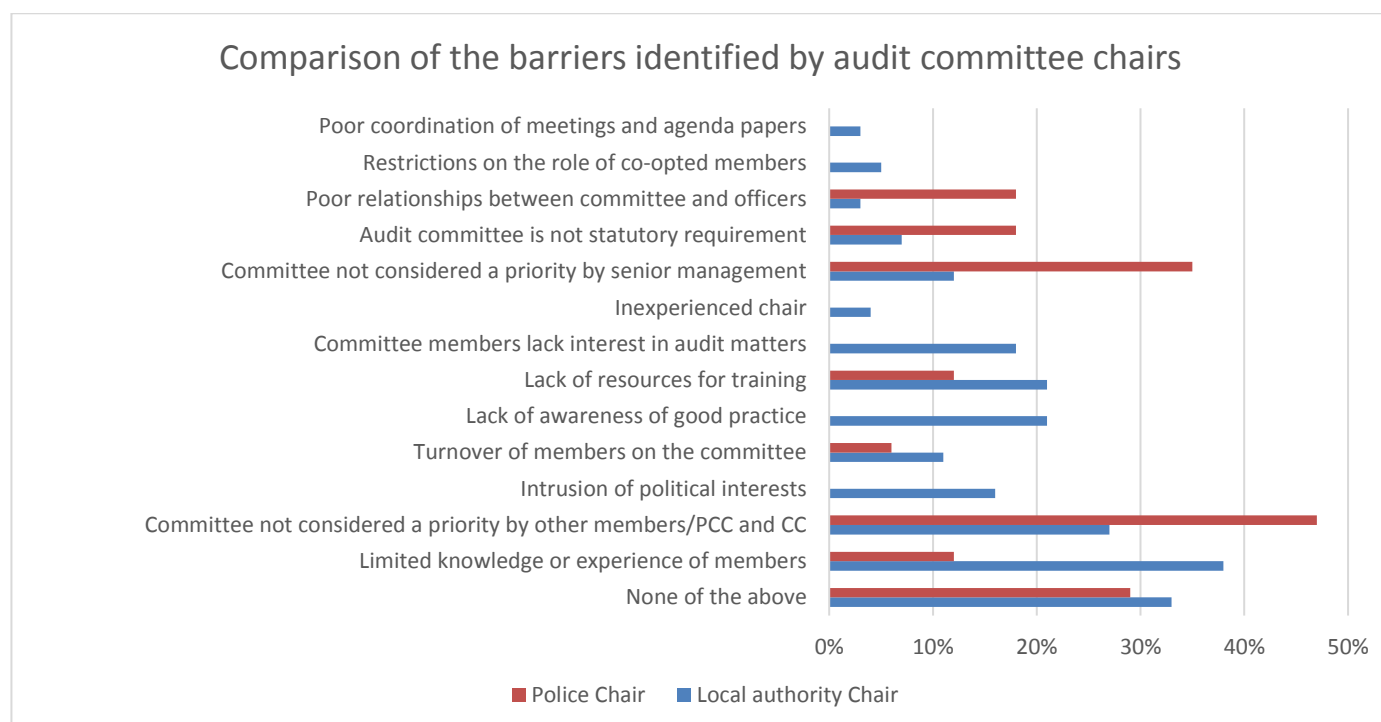
One possible explanation for the differing perception is that police audit committee chairs may have previous experience of audit committees in different sectors against which they can compare their experience of the police audit committee. The local authority chair may not have other experience.

## Barriers to Effectiveness

When comparing the responses to the question about barriers to effectiveness, local authority HIAs are far more likely to identify one or more barriers to the improvement of their audit committee than police CFOs.



We also asked the same question of the chairs of the committees. Here the results are not quite so stark, but fewer barriers are identified by police audit committee chairs. It should also be noted that the principal barriers for police are different to those of authority committees.



So, taking the evidence on views of effectiveness and barriers together, is there sufficient evidence to say that the police 'system' for audit committees is more effective than that of local authorities?

Before drawing any firm conclusions it is worth emphasising again that the survey can only collect the views of effectiveness, not hard evidence. Certainly the police approach does overcome the major barrier to effectiveness faced by local authority audit committees: the limited knowledge and experience of the membership. However the police committees are not without issues; a committee made up solely of independent members has the disadvantage of not being close to the organisation, and being less familiar with the new developments, challenges and approaches of that body.

It can also mean that relationships can be more difficult to establish and maintain. If we look at the barriers identified by police chairs they are not to do with knowledge and training but are around relationships and how the committee is positioned in relation to the PCC and chief constable. Certainly there appears to be some tension between the committee and senior managers or the PCC and chief constable in some committees.

- *The audit committee has limited/no power. Recommendations of committee to PCC and CC ignored. CC and PCC have little or no interest in the Committee – fail to attend meetings. Came to accounts meeting in the third year on the insistence of the committee.*

Police chair

- *The joint audit committee is not an audit committee in the normal sense in that it has no powers other than resignation en masse. Therefore everything has to be done by negotiation. This frustrates the committee members and all have indicated that they will only complete one term of office. Individuals with the requisite knowledge and understanding to fulfil the role do not wish to have responsibility without power. The remuneration is poor for the responsibility involved.*

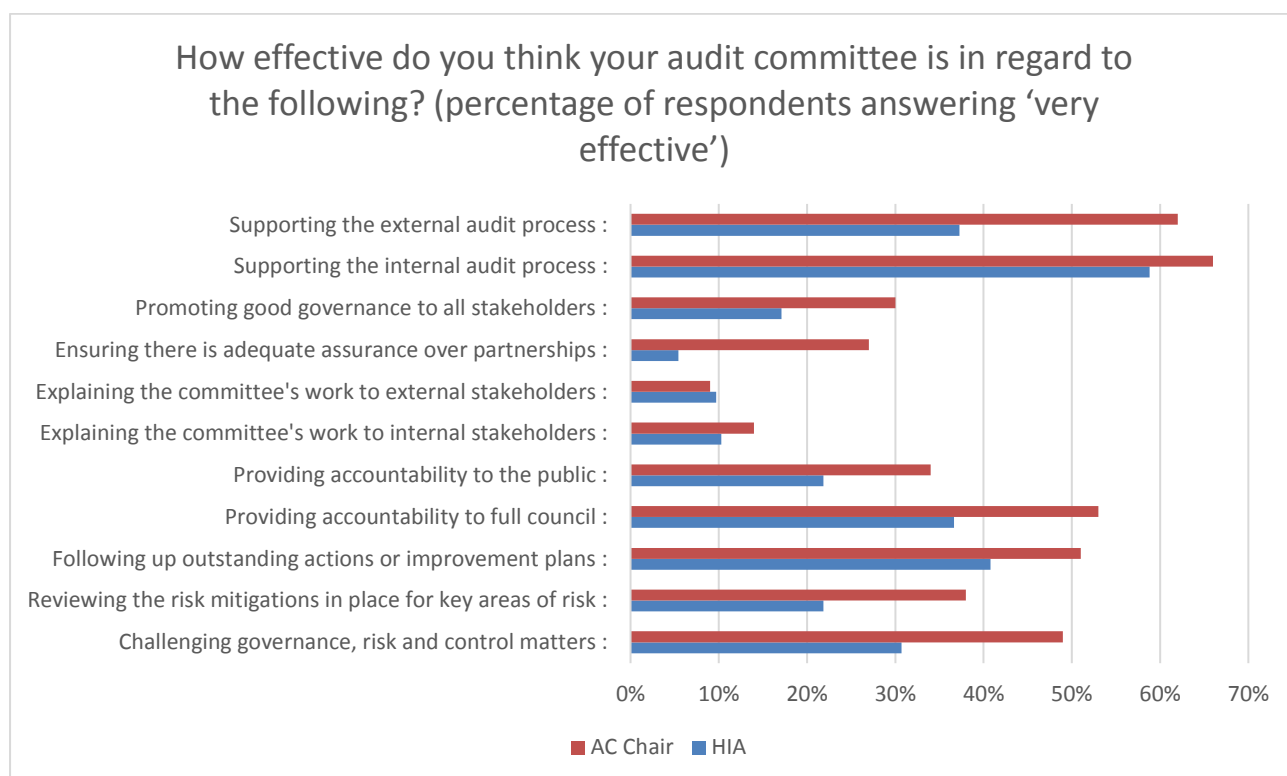
Police chair

- *An issue we have is that the Executive has been resistant to our receiving information in a timely manner. Key decisions are taken and we are informed as an afterthought, beyond the point at which any advice could be said to be useful. During the last year it has been particularly difficult to develop/maintain a productive working relationship with the PCC and the Chief Constable.*

Police chair

Overall there are disadvantages as well as advantages of an audit committee consisting solely of independent members. To take full advantage of their knowledge and experience, care should be taken to develop relationships and ensure good communication. Equally, committee members do need to understand the specific requirements of the sector and where the committee needs to operate in a different way to other audit committees that the members may have experience of.

## A Detailed Look at the Local Authority Results



In almost every indicator the view of the chair was more positive than the view of the HIA, markedly so in some cases. This might indicate that chairs are perhaps over-confident about the success of their committees. Even so there are very good results here. Fifty nine percent of HIAs said that their audit committee was "very effective" in supporting the internal audit process and a further 37% said they were "quite effective". Forty one percent of HIAs considered that the committee was "very effective" in following up on outstanding actions and improvement plans with a further 49% considering them to be "quite effective". From comments made some HIAs were very positive about the support they received from the audit committee:

- *The support from the audit committee is first class and it is difficult to identify how it could better support the work of internal audit. The committee is focused on addressing control issues and making a difference in terms of how the Council ensures that it provides value for money.*

Head of internal audit, English unitary council

One area where there was quite a big gap in the perceptions of the HIA and the chair was in response to 'Challenging governance risk and controls matters'. Thirty one percent of HIAs judged their committees to be "very effective" against 49% of chairs. Several HIAs made comments that this is an area where they would like to see an improvement.

- *The committee is very good at calling managers to account but does not always use the full range of questioning skills to establish and challenge them to the level of detail required to explore fully the responses provided. It is getting the balance right between examining the facts in a way to engage and inform the officers,*



*without feeling that they are publically intimidating or embarrassing the managers. When the committee are challenging the managers directly, they sometimes turn to the auditor to provide the assurances to them over systems instead of drilling down more with their questions to the manager.*

Head of internal audit, English unitary council

- *Support and understanding is pretty good. However there is always scope to challenge management more about the issues IA might have reported and certainly over the timely implementation of recommendations.*

Head of internal audit, English metropolitan district council

One of the weaker areas was in relation to providing assurance over partnership arrangements. In comparison to the 2011 survey there appears to have been only a small improvement, although collaborative working and shared services have expanded considerably in the sector.

**Percentage of heads of audit viewing their committee as effective in ensuring there is adequate assurance over partnerships:**

	<b>Very effective</b>	<b>Quite effective</b>
2011 heads of audit respondents	3%	23%
2016 heads of audit respondents	5%	31%

Explaining the work of the committee both internally and externally did not score very highly either. We did not ask this question in 2011 so it is not possible to compare the answers. Some audit committees do not have a high profile within the council and councillors who are not involved with the committee may have little understanding or knowledge of its work. Similarly managers may not understand its contribution either.

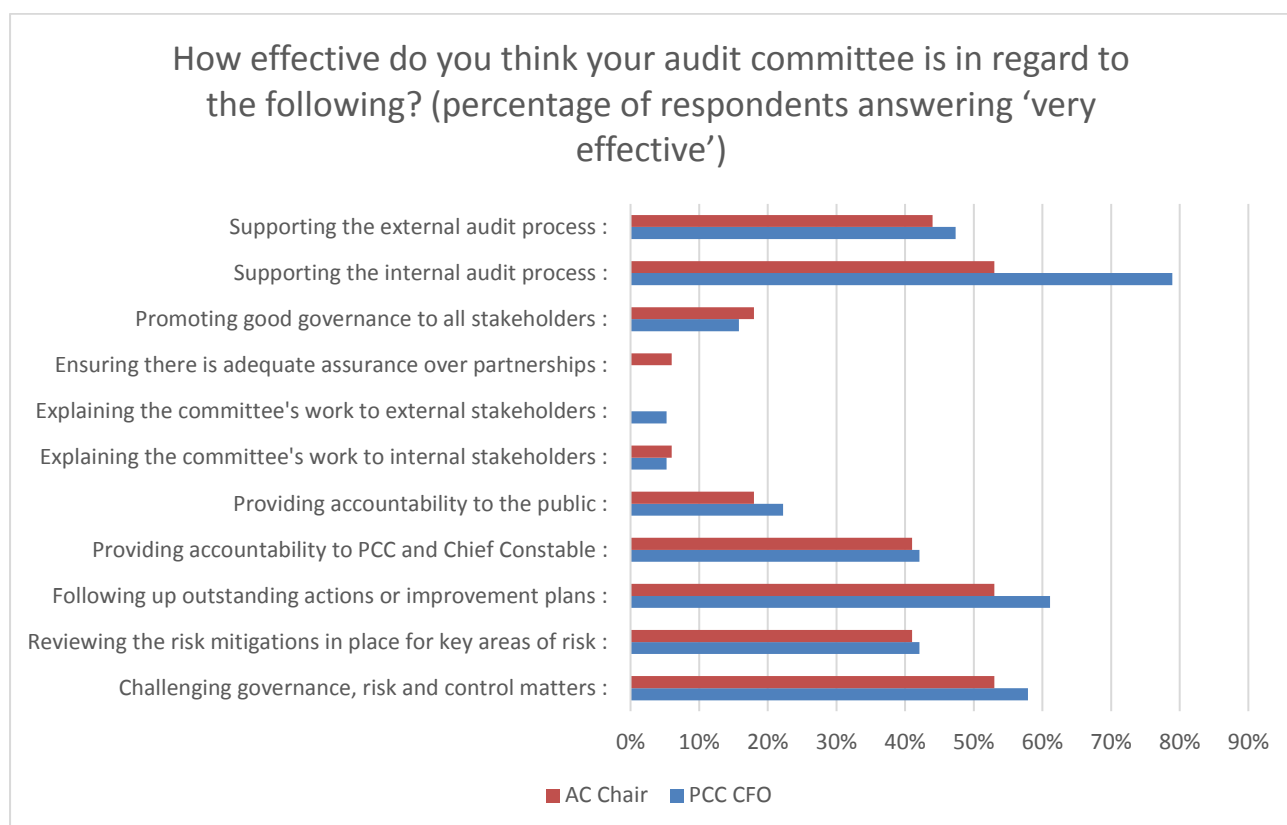
- *Attendance is not always as good as it might be. Very few Members who are not members of the Committee attend and, rarely, members of the public.*

Chair, English district council

In the private sector there has been a push to improve the reporting by the audit committee on its activities. Since the Financial Reporting Council's [Guidance on Audit Committees](#) was updated in 2012, audit committees of larger companies should include an explanation of their work in the annual report, specifically covering the significant issues in the financial statements they covered, the effectiveness of the external audit process and how objectivity and independence of external audit are safeguarded in relation to non-audit work. In comparison there is less regulation impacting on local authority audit committees, although all are recommended to make an annual report in the CIPFA guidance.

In the survey we did ask whether committees had produced an annual report available to the public. Thirty five percent of HIAs in local authorities said they had and 53% of police CFOs had. The adoption of this practice by all audit committees would help the committee to explain its work to both internal and external stakeholders.

## A Detailed Look at the Police Results



Overall the views expressed by the CFO and the audit committee chairs coincide well. Whereas the local authority chairs tended to be more positive in their responses than the HIAs, police chairs tended to be slightly less positive than the CFOs in response to several areas.

In only one area was there a very significant difference between chairs and CFOs: the effectiveness of the support provided to internal audit.

	<b>Very effective</b>	<b>Quite effective</b>
CFO respondents	79%	21%
Chair respondents	53%	47%

Clearly chairs considered there was some room for improvement, perhaps reflecting the committee members' wider experience of internal audit and audit committees in other settings.

A high level of effectiveness was also identified for following up action plans and for challenging governance risk and control matters. Over 40% of both groups also viewed the committee as very effective in regards to reviewing risk mitigations and providing accountability to the PCC and Chief Constable.

Partnership assurance did not score so highly. The table below shows the percentage of respondents viewing the committee as either very effective or quite effective in this area.

	<b>Very effective</b>	<b>Quite effective</b>
CFO respondents	0%	33%
Chair respondents	6%	53%

Given the increasing profile of collaboration both with other forces and with other public bodies, with fire authorities in particular, this area perhaps requires further consideration at the local level.

Explaining the work of the committee and providing accountability to the public were also lower scoring, similar to the local authority profile. As already noted, 53% of police CFOs said that the committee had produced an annual report to the public. While this is already a higher percentage than local authority committees, there is still room for improvement.

## Conclusions

Measuring effectiveness is not an exact science. Seeking views of those who lead audit committees and who work closely with them does give us an insight however into their relative strengths and weaknesses. At the local level it is beneficial for audit committees to review their own effectiveness and to seek feedback from those interacting with the committee. The CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police* (CIPFA, 2013) recommends that the committee should evaluate its performance and seek feedback. The data from this survey can be used to feed into such an evaluation.

Comparing the views on effectiveness of police and local authority committees highlights the influence of the differing compositions of the committees. Access to independent members has helped the police audit committees to be more effective within a relatively short time period. However this approach, together with their advisory role, has thrown up some problems around relationships, communications and attitudes which will need to be addressed.

## Recommendations

1. All audit committees should review their performance and seek feedback from those who regularly work with the committee or rely on its assurances.
2. Audit committees should identify any barriers to improving their effectiveness and seek to address them.
3. Those committees that do not already do so should consider producing an annual report to explain their role and demonstrate the value they have added.
4. All audit committees should ensure that they have a clear and accessible statement on the website that explains their role and helps stakeholders to understand their work and contribution.

Further briefings on the results of the audit committee survey are available to download from the CIPFA website. The recommendations in these briefings should be read alongside those above:

- Commentary and Executive Summary, CIPFA Survey on Local Authority and Police Audit Committees
- CIPFA Survey on Local Authority Audit Committees

- CIPFA Survey on Police Audit Committees
- Training and Support for Local Authority and Police Audit Committees
- Internal Audit and Audit Committees in Local Authorities and Police.

If you have any questions about the Better Governance Forum, our resources or future developments please do not hesitate to contact me.

Diana Melville

Governance Advisor, CIPFA

E: [diana.melville@cipfa.org](mailto:diana.melville@cipfa.org)

T: 01722 349398      Twitter:      @DianaMelville

## Evaluating the effectiveness of the Audit and Standards Committee.

Areas where the committee can add value by supporting improvement	Examples of how the committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Score
Promoting the principles of good governance and their application to decision making.	Robust review of the AGS and the assurances underpinning it. Working with key members / governors to improve their understanding of the AGS and their contribution to it. Supporting review / audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	<ul style="list-style-type: none"> <li>Committee undertakes robust scrutiny of the AGS and comments feed into Cabinet's consideration of the statement.</li> <li>Committee considers governance issues raised in individual audit reports and where appropriate managers attend the Committee to discuss issues arising.</li> <li>Committee considers potential changes to Contract Standing Orders, Financial Regulations, Risk Management Strategy and related policies</li> </ul>	<p>Members expressed a view that a review of Contract Standing Orders was overdue. Internal reports were of a good quality – external reports considered by the Committee were not of the same quality. The Committee expressed a view that work carried out in this area was not quite as well known as it could be.</p> <p>SCORE: 3/4 OUT OF 5</p>
Contributing to the development of an effective control environment.	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	<ul style="list-style-type: none"> <li>This is a key strength of the Committee. It rigorously monitors implementation of recommendations and has followed up non-compliance with individual managers and has undertaken detailed scrutiny of some topics e.g. standards of case file recording. This encourages ownership of the control framework.</li> <li>Process for monitoring implementation will be further strengthened during 2016/17.</li> </ul>	<p>This was an area of strength for the Committee, particularly on internal audit, but monitoring of external audit could be enhanced by more information about how recommendations the Committee had made were handled/progressed.</p> <p>SCORE: 4 OUT OF 5</p>
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements. Holding risk owners to account for major / strategic risks.	<ul style="list-style-type: none"> <li>Committee agrees the Council's overall risk management strategy but last review was in 2014.</li> <li>The AGS which is considered by the Committee includes corporate risks.</li> <li>Consideration of other risks is picked up via consideration of the internal audit plan and the outcome of individual audits.</li> </ul>	<p>The Committee saw their role as holding major risk owners to account along with significant strategic risks. The Committee would like to consider Fire and Rescue IRMP (resources matched to risk). Members saw this as an area for improvement. The Committee expressed a view that they would like to consider the Corporate Risk Register at a future meeting(s).</p> <p>SCORE: 3 OUT OF 5</p>
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying it assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	<ul style="list-style-type: none"> <li>The committee reviews and comments on external and internal audit's plans.</li> <li>The Committee does not consider issues raised by other assurance providers whether external (such as Ofsted or peer reviews or internal (such as health and safety and information management inspections).</li> <li>Effectiveness of external and internal audit considered via the respective annual reports.</li> <li>Committee considered proposals on appointment of external auditors in Sept 2016 and will be involved in the External Assessment of internal audit during 2017.</li> </ul>	<p>The annual reports from internal and external audit on their effectiveness provided the Committee with appropriate assurance. The Committee expressed a desire to look at whether any gaps exist in the assurances they receive. In particular the Committee could have an annual round up of the key points made by external inspections such as Ofsted impacting on the internal control environment.</p> <p>SCORE: 3 OUT OF 5</p>
Supporting the quality of the internal audit activity, particularly by underpinning it organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.	<ul style="list-style-type: none"> <li>The committee approves the Internal Audit Charter which includes reporting lines. Has also approved the QAIP.</li> <li>Overall effectiveness is considered as part of the Committee's review of the Internal Audit Annual report.</li> </ul>	<p>Members felt that the Committee was performing strongly in this area.</p> <p>SCORE: 5 OUT OF 5</p>
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	Reviewing major projects and programmes to ensure that governance and assurance management are in place. Reviewing the effectiveness of performance management arrangements.	<ul style="list-style-type: none"> <li>The internal audit plan includes periodic audits of performance and programme / project management and audits on specific projects.</li> <li>Focus of AGS and internal audit plan is on key risks facing the Council.</li> <li>Detailed scrutiny of individual projects is the responsibility of the relevant Overview &amp; Scrutiny Committee.</li> </ul>	<p>Members felt that they could rely on both the internal and external assurance work. The Committee expressed a view that they needed to be pro-active in relation to major projects and would be interested in looking at the process through which major projects were governed (perhaps a periodic review of major projects).</p> <p>SCORE: 3 OUT OF 5</p>

Areas where the committee can add value by supporting improvement	Examples of how the committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Score
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurance received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	<ul style="list-style-type: none"> <li>• Robust budget setting and capital programme monitoring processes.</li> <li>• Robust savings plans in place.</li> <li>• Committee considers draft contract standing orders and financial regulations. Relevant internal audits will review compliance with these with outcomes reported to the Committee.</li> <li>• The Committee considers the external auditor's annual VFM report.</li> </ul>	<p>The Committee agreed that they were not responsible for budget setting, but for ensuring that robust arrangements and processes were in place to ensure that value for money was always occurring. The Committee felt they gained sufficient assurance from the work of both internal and external audit.</p> <p>SCORE: 4/5 OUT OF 5</p>
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's Managing the Risk of Fraud (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.	<ul style="list-style-type: none"> <li>• The Council has a proportionately low level of fraud and counter fraud activity reflects this.</li> <li>• The Committee considers the anti-fraud policy.</li> <li>• Internal Audit Board has requested a report on counter fraud activity.</li> <li>• All frauds are investigated with key issues reported to the Committee.</li> <li>• Key fraud risk areas considered when preparing the internal audit plan.</li> </ul>	<p>This was a positive area from the Committee's perspective. Whistleblowing was felt to be a cultural issue.</p> <p>SCORE: 5 OUT OF 5</p>
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.	<ul style="list-style-type: none"> <li>• The Committee has previously commented on the Statement of Accounts and Foreword (and a different narrative is required for this year). It has also previously considered quarterly reporting.</li> <li>• Accounts, Internal Audit Annual Report and AGS is available on the internet.</li> <li>• Robust consultation process in place.</li> <li>• Extensive information available on web-site.</li> </ul>	<p>It was the Committee's view that the Council relied heavily on the internet, despite the fact that only 20% of the public had access to the internet. The Committee expressed a view that the Head of Communications should report to a future meeting on what the Council is doing to improve in this area.</p> <p>SCORE: 3 OUT OF 5</p>

## **Audit & Standards Committee**

**6 March 2017**

### **Complaints Process Update**

#### **Recommendation**

Members consider and comment on the report.

#### **1.0 Introduction**

1.1 At its meeting in September last year the Committee asked for a report about the complaints process focusing in particular on:

- number of complaints received suitably analysed by category / service / type etc.
- speed of replying to complaints
- performance monitoring and reporting

#### **2.0 Action**

2.1 Attached at Appendix 1 is a report for April – September 2016 which details how complaints have been handled in the Council, focusing on the three key issues raised by the Committee.

#### **3.0 Conclusion**

3.1 Future actions to be taken by the organisation include:

- Continuing to learn from complaints and other customer feedback
- Embedding the effective use of the new Contact Us system as a key tool for driving effective complaints handling within the Council
- Enabling and supporting customers to use this new channel for logging and sharing their feedback
- Continuing to improve the quality assurance and performance monitoring opportunities that the new system offers us

#### **Background papers**

None

	<b>Name</b>	<b>Contact Information</b>
Report Author	Karen Smith, Customer Relations Manager	<a href="mailto:karensmith@warwickshire.gov.uk">karensmith@warwickshire.gov.uk</a>  01926 414103
Head of Service	Kushal Birla, Head of Customer Service	<a href="mailto:kushalbirla@warwickshire.gov.uk">kushalbirla@warwickshire.gov.uk</a>  01926 412013
Strategic Director	David Carter, Strategic Director, Resources	
Portfolio Holder	Councillor Kam Kaur, Portfolio Holder for Customers	

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:



# Appendix 1

## Complaints Handling April – September 2016

The purpose of this report is to explain briefly how the customer complaints process is implemented within the organisation and how we use customer feedback to continually improve our services. The report covers the following:

- What is the framework for complaints handling?
- How do customers share their feedback?
- What do customers tell us?
- How do the Council respond?
- What do we learn, and how do we use customer feedback?
- How do we monitor and continue to raise the standards of complaints handling?

### What is the framework for complaints handling?

The Council has a well-established and comprehensive customer feedback handling process, which was reviewed and revised in 2014, and re-endorsed by Corporate Board in September 2015. The systems in place reinforce that we want to hear from people when we get things right, and when we could do things better. This helps us to:

- Understand what services people value and why;
- Share best practice;
- Make sure we learn and continually improve how we provide a good service to our customers;
- Recognise when our staff “go the extra mile”.

We encourage all staff to respond quickly and clearly to any concerns that are raised by individuals or groups. We want all our customers to feel confident that their views will be taken seriously, and that there will be no adverse “repercussions” if they need to raise genuine concerns.

Our procedures are designed to:

- Protect vulnerable people from abuse and lack of care
- Confirm the right of customers to make a complaint and to disagree
- Enable those denied a service to challenge that decision
- Allow customers or their representatives to complain about the quality of service
- Ensure that complaints or suggestions are acted upon
- Provide additional feedback from our customers on the quality and appropriateness of our services

- Inform planning, resource allocation and quality assurance processes.

### How do customers share their feedback?

43% (196) of all complaints handled in the period April – September 2016 (454) have come via the digital web channel i.e. the Contact Us recording system. Currently, the uptake of this new way of contacting us by customers differs across the different Groups:

GROUP	% OF WEB CHANNEL USERS	% VIA CUSTOMER SERVICE CENTRE TELEPHONY	% VIA ONE STOP FACE TO FACE OUTLETS	% DIRECT TO SERVICE TEAMS
Communities	62%	30%	0	8%
Fire & Rescue	33%	0	0	67%
Resources	52%	10%	1%	38%
People	11%	11%	0	78%

Communities Group services are now engaging frequently through the digital channel directly with customers through their Council Self Accounts. Conversely, People Group services are still largely engaging through traditional channels directly with the operational service teams.

### What do Customers they tell us?

Overall we have handled 454 complaints in the period April – September 2016. The breakdown is across the Groups is shown below:

GROUP	NUMBER OF COMPLAINTS
Communities	222
People	148
Resources	81
Fire & Rescue	3

Whilst the volume of complaint handling activity has remained fairly static for People Group and Fire and Rescue Group, there has been a significant upswing in complaint registration activity in Resources Group and Communities Group. This is likely to link to the growth in Council Self Account activity, and is currently under review to ensure that customers and staff are registering appropriately. It should be viewed as a very positive development that our customers are taking advantage of this new channel to provide us with their feedback.

Reasons for complaints across the Groups are shown below:

GROUP	REASON FOR COMPLAINT							
	Service Issues	Staff Conduct Issues	Communication Issues	Financial Issues	Discrimination Issues	Physical Environment Issues	Policy Disagreement	Other
Communities	29	18	4	0	0	11	29	130
People	79	15	6	15	0	1	2	29
Resources	19	9	4	2	2	9	3	33
Fire&Rescue	1	2	0	0	0	0	0	0

It is noticeable that the primary focus of complaints for People Group is around services issues, whereas in Communities Group there are high levels of disagreement with policy. It is also within People Group that financial challenges are most often made. Communities and Resources both include services which are about physical property or holdings, and so receive a commensurate number of complaints about these. Fire and Rescue Group continue to show a very low level of complaint handling activity, which is consistent with their track record historically.

Outcomes of the complaints across the Groups are listed below:

GROUP	OUTCOME					
	UPHELD	PARTLY UPHELD	NOT UPHELD	WITHDRAWN	TRANSFERRED	OTHER
Communities	11	15	44	4	5	135
People	27	27	34	5	5	50
Resources	18	2	16	2	3	40
Fire & Rescue	1	1	0	0	0	1

*NB: A piece of quality assurance evaluation is now underway to understand the "Other" outcome frequency, as this appears unduly high.*

### What do we learn, and how do we use customer feedback?

- We report to key decision-making and endorsement bodies, such as Committees, Corporate Board, Group Leadership Teams.
- We log and share feedback with staff about changes that have been made
  - as a consequence of customer feedback.
- We have expanded the types of customer feedback we collect. There are now systems in place across the Council to enable the collation of data on customer compliments and comments, and a new Ask a Question option. This helps to provide a more balanced and reflective view of customer feedback and satisfaction.
- Corporate Board have focused on two key performance measures on customer feedback:
- Timescale compliance

- Adverse decisions from the Local Government Ombudsman
- We also track how negative customer feedback influences service improvement. There are systems in place in different parts of the Council to encourage the collation of “learning from complaints” data, on a team, service and unit basis, and this data is used in annual reports and feedback to regulators such as OFSTED.

Opportunities to improve this are also available. There is opportunity for the Contact Us system to enable far more consistent and clear recording about organisational learning across the whole of the Council and we are progressing this.

### **How do we monitor and raise the standards of complaints handling?**

A key element of any quality assurance process is customer feedback on the service they have received. Telephone surveys were conducted for us by Customer Service Network between February and May 2015, based on the good practice guidance in “*My expectations for raising concerns and complaints*” produced jointly by the Parliamentary and Health Service Ombudsman (PHSO) Healthwatch England (HWE) and the Local Government Ombudsman (LGO). This presented research on what good outcomes for patients and service users look like if complaints are handled well.

The survey has helped to identify and improve important gaps between customer expectations and Council performance. It helpfully focuses attention on the following key basic satisfaction drivers for customers:

- Ease of contact
- Effective communication during the process
- Confidence in the fairness and openness of the process
- Timeliness of response
- Confidence in the quality of the review and those undertaking it

Timeliness of response has been a key focus of performance management activity over the last 18 months. This is a key performance indicator, and is reported in quarterly performance reports across the Council. Corporate Board and the Resources & Fire and Rescue Overview and Scrutiny Committee have received regular reports on progress with improving performance with respect to this indicator.

Our April – September 2016 data shows that overall 68% of complaints were dealt with within the agreed service timescales.

GROUP	% Wthin the Timscale	Performance Target For % Within Timescale
Communities	85%	60%
People	34%	40%
Resources	83%	60%
Fire & Rescue	100%	60%

For local resolution (95% of all cases), there is a 10 working day timescale (whichever complaints procedure is used – ie, General, Adult Social Care, or Children’s Social Care). Timescales for subsequent stages differ, depending on the complaints procedure being used. For more formal investigation there is a 25 working day target, and for Final Review there is a 30 working day target. The ability of different services to meet these challenging targets varies. Corporate Board and Corporate Services Overview and Scrutiny Committee have been monitoring the timescale compliance issue closely, and in particular the challenges and efforts being made in People Group to improve the timeliness of complaints handling. As a consequence there has been a significant improvement over the last 12 months, and there is a continuing action plan to keep bearing down to improve this result further. This is the area where there is likely to be most complexity and sensitivity, so we would expect to see this as a more challenging area to achieve high levels of timescale compliance, especially given the current economic climate and the increased pressures within social care services.

This data has been produced using the new Contact Us system, which relies on the real time recording of complaint handling activity across the Council. As this is a new process, we are carefully auditing how well the real time recording process is being embraced across the Council, so that we can be assured we are getting an accurate reflection in this data.



**Audit and Standards Committee  
Work Programme 2016/17**

Item	Lead Officer	Date of next report
Complaints Handling in the new Contact Us System	Karen Smith	March 2017
Self-Assessment Report (Early Closedown)	Virginia Rennie	March 2017
External Audit Plan (inc Audit Fee Letter)	Virginia Rennie	March 2017
Self-Assessment	Jane Pollard	March 2017
Internal Audit Progress Report (EXEMPT)	Garry Rollason	June 2017
Annual Governance Statement 2016/17	Garry Rollason	June 2017
Internal Audit Annual Report 2016/17	Garry Rollason	June 2017
Internal Audit Plan 2017/18	Garry Rollason	June 2017
External Audit Plan	Virginia Rennie	June 2017
Audit Fee Report	Virginia Rennie	June 2017
Whistleblowing Policy Review	Jane Pollard	June 2017
Internal Audit Progress Report (EXEMPT)	Garry Rollason	September 2017
Annual Governance Statement 2016/17	Garry Rollason	September 2017

