

Dear Members

### **Audit and Accounts Committee**

A meeting of the Audit and Accounts Committee will be held in the **Craddock Room, Civic Centre, Riverside, Stafford** on **Wednesday 10 November 2021 at 6.30pm** to deal with the business as set out on the agenda.

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.



Head of Law and Administration

**AUDIT AND ACCOUNTS COMMITTEE -  
10 NOVEMBER 2021**

**Chair - Councillor A M Loughran**

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**Membership**

**Chair - Councillor A M Loughran**

M G Dodson	P W Jones
I D Fordham	A M Loughran
R A James	J A Nixon

**Cabinet Member - Councillor R M Smith**

**ITEM NO 3(a)****ITEM NO 3(a)**

<b>Report of:</b>	<b>Chief Internal Auditor and Risk Manager</b>
<b>Contact Officer:</b>	<b>Stephen Baddeley</b>
<b>Telephone No:</b>	<b>01543 464415</b>
<b>Ward Interest:</b>	<b>Nil</b>
<b>Report Track:</b>	<b>Audit and Accounts 10/11/21 (Only)</b>

**AUDIT AND ACCOUNTS COMMITTEE****10 NOVEMBER 2021****Internal Audit Progress Report – September 2021****1 Purpose of Report**

- 1.1 To present to the Audit and Account Committee for information a progress report on the work of Internal Audit up to 30 September 2021.

**2 Recommendation**

- 2.1 That the Committee notes the progress report.

**3 Key Issues and Reasons for Recommendation****Key Issues**

- 3.1 Attached is a progress report showing the audits which have been issued between 1 April 2021 and 30 September 2021. The Section is progress well with the Audit Plan but there are still some disruptions and delays caused by the Covid Pandemic and availability of officers.

**Reasons for Recommendations**

- 3.2 The report has been prepared for Members information.

**4 Relationship to Corporate Business Objectives**

- 4.1 The system of internal controls reviewed by Internal Audit is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities. Management are responsible for the control environment and should set in place policies, procedures and controls to help ensure that the system is functioning appropriately.

<b>5</b>	<b>Report Detail</b>
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- 5.1 This report is a summary of the Internal Audit work between 1 April 2021 and 30 September 2021 and is a report of progress against the audit plan. **APPENDIX 1** contains progress monitoring information.
- 5.2 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers.
- 5.3 The table below gives a summary of the level of assurance for each of the audits completed in the period. More detailed information on each of the reports issued is contained in **APPENDIX 2**.

Number of Audits	Assurance	Definition
2	Substantial ✓	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively. No action is required by management.
4	Partial ▲	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	Limited !	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	No Assurance ✗	One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan.
1	N/A	One piece of work was issued where it was not appropriate to issue an Assurance due to the narrow scope of the work – this was in relation to Pension Testing on behalf of Staffordshire County Council.

5.4 **APPENDIX 3** lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.

5.5 **APPENDIX 4** shows information relating to follow-ups.

<b>6</b>	<b>Implications</b>
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6.1	<b>Financial</b>	Nil
	<b>Legal</b>	Nil
	<b>Human Resources</b>	Nil
	<b>Human Rights Act</b>	Nil
	<b>Data Protection</b>	Nil
	<b>Risk Management</b>	Nil

6.2	<b>Community Impact Assessment Recommendations</b>	<p>Impact on Public Sector Equality Duty: The work of Internal Audit does not directly impact on this area. Although work is carried out to ensure that these duties are complied with.</p> <p>Wider Community Impact: The work of Internal Audit does not directly impact on this area. Although work is carried out to ensure that these duties are complied with.</p>
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<b>Previous Consideration - Nil</b>
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<b>Background Papers – Internal Audit Reports</b>
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**Appendix 1 – Progress Monitoring**

Number of Audits in Plan for 2021-22	Audits Completed to Draft	Audits In Progress	Percentage of Plan In Progress or Completed to Date
23	7	3	43%

Level of Assurance	No Assurance	Limited	Partial	Substantial	N/A
Number of Audits Issued in Year to date	0	0	4	2	1

N/A is where the nature of the review did not enable an opinion to be issued on the area under review.

This is normally where the focus is narrow or where a project is at an early stage of progress.

**Appendix 2 - Audits Completed by 30 September 2021**

<b>Audit</b>	<b>Head of Service</b>	<b>Status</b>	<b>Number of High/Medium Recommendations</b>	<b>Assurance</b>	<b>Comments and Key Issues</b>
Leisure Contract Open Book and Recovery Arrangements	Operations	Final	1	Partial ▲	There was no independent verification process carried out by the Council to confirm the accuracy and validity of the performance information provided by the Contractor.
Tree Management	Operations	Final	2	Partial ▲	<ul style="list-style-type: none"><li>• Work wasn't always carried out in line with agreed timescales, some works identified in the 2015 Tree Survey included some felling/dismantling of trees had only recently been completed at the time of the audit.</li><li>• Operatives were not updating the system for all works when completed and Office Staff were closing jobs which they believed had been completed without verification leaving an incomplete record or works for the trees.</li></ul>

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Staff Expenses	HR	Final	5	Partial ▲	<ul style="list-style-type: none"> <li>Although there are some guidance notes and forms there is no documented Staff Expense Scheme. Forms are also not consistent across the two Councils.</li> <li>Despite being required some mileage claims had been signed off by Managers and paid without receipts being provided to evidence the expenses or allow the Council to reclaim the VAT on fuel.</li> <li>VAT was reclaimed without appropriate fuel receipts being on file to support the full amount of the claim.</li> <li>Officers often failed to provide sufficient information on mileage forms to allow the journeys to be validated.</li> <li>One form was found to have been approved by a Manager not on the authorised list to approve the forms. (Although they were at a level where it was appropriate for them to approve forms.)</li> </ul>
Cloud Strategy and Security	Technology	Draft	2	Partial ▲	<ul style="list-style-type: none"> <li>The Councils policy for hosted solutions has not been updated since 2015 which means it is not current in terms of security guidance and technology solutions.</li> <li>IT did not compile performance/progress monitoring or reporting in relation to the actions and work required to address security weakness identified from the security monitoring software and to improve the Council's overall security score.</li> </ul>
Economic Growth Strategy	Development	Final	0	Substantial ✓	



Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Covid Response review	Corporate	Final	0	Substantial ✓	
Customer Transformation and CRM Replacement Project	Technology, Operations and Governance★	Final	0	N/A	This project is still in early stages and has not yet had a formal Project Board established or finalised budgets for the project. A number of suggestions were made that would improve the project management arrangements.

★ Services led by Cannock Chase District Council as part of Shared Services

**Appendix 3 – Audits in Progress**

Audit	Head of Service
Cannock Chase Special Area of Conservation (SBC act as Accountable Body)	Development
Economic Development Projects – (Future High Street Fund, Station Gateway, Meecebrook)	Development
IT Records and Document Retention	Technology

★ Services led by Cannock Chase District Council as part of Shared Services

**Appendix 4 – Follow-up Completed**

No follow-ups were completed in the period.

# Stafford Borough Council Audit Progress Report and Sector Update

**Year ending 31 March 2021**

10 November 2021



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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, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Introduction

## Your key Grant Thornton team members are:

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

The paper also includes:

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

Members of the Audit & Accounts Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

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

# Progress at November 2021

## Financial Statements Audit

We undertook our initial planning for the 2020/21 audit in March 2021 and we issued a detailed audit plan in July 2021, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements.

The Accounts and Audit (Amendment) Regulations 2021 pushed back the date by which principal authorities are required to publish audited financial statements to 30 September. In 2020 this date was pushed back to 30 November.

As agreed with management, our audit fieldwork commenced in October 2021 this was due to the implementation of the new finance system effective from 01 April 2021. We anticipate we will be in a position to complete our audit working by the end of December 2021 and then sign the audit opinion in January 2021 after the Audit & Accounts Committee on 18 January 2022 or shortly thereafter.

## Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

## Other areas

### Certification of claims and returns

We certify the Authority’s annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim was completed in April 2021. The certification work for the 2020/21 claim is due to begin in the coming weeks. We will report our findings to the Audit & Accounts Committee as part of our normal audit progress reports on completion of this work.

### Meetings

We continue to meet with management at regular intervals and last met at the end of October to discuss audit progress and deliverables.

# Results of Audit Work to date

The findings of our audit work to date, and the impact on our reporting, are summarised in the table below:

	Work performed	Summary of key findings
<b>Management override of controls</b>	<p>We have applied a new approach to our testing of journal entries in 2020/21, utilising the inflo software. This provides the engagement team with effective assurance around the completeness of the population subject to testing and introduces more sophisticated risk assessment of journals for indications of management override of controls.</p> <p>The engagement team have completed the risk assessment of the population and selected a sample of transactions for detailed testing.</p>	<p>We have commenced our audit work and have not identified any significant reporting issues. However, noted that our work is still in progress and we will issue detailed findings in the Audit Finding Report, which will be issue to committee members in January 2022.</p>
<b>Valuation of land and buildings (PPE)</b>	<p>We have received the valuation report prepared by management's expert and working papers to support the 2020/21 revaluation exercise.</p> <p>We have determined an appropriate testing strategy for assets across other land and buildings and council dwellings, and have communicated this to the valuer to provide evidence to support their assumptions.</p>	<p>We have commenced our audit work and have not identified any significant reporting issues. However, noted that our work is still in progress and we will issue detailed findings in the Audit Finding Report, which will be issue to committee members in January 2022.</p>
<b>Valuation of the net defined benefit pension liability</b>	<p>Our review of the net defined benefit pension liability is ongoing, our testing approach remains consistent with previous years and will undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary.</p> <p>We have received assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data.</p>	<p>We have commenced our audit work and have not identified any significant reporting issues. However, noted that our work is still in progress and we will issue detailed findings in the Audit Finding Report, which will be issue to committee members in January 2022.</p>



	Work performed	Summary of key findings
Other areas	<p>Our work on non-significant risk areas of the audit, including material balances and transactions and other scoped areas is currently ongoing.</p> <p>We have substantially performed our risk assessment and where management have provided detailed populations we have selected sample items for our substantive testing.</p>	<p>We have not identified any significant issues from our audit work performed to date in other areas.</p>
Value for money	<p>We have received initial risk assessment responses for our value for money work. Upon completion of our initial review of responses we will communicate with management on documentation required to complete our assessment.</p> <p>Our assessment will review the arrangements in place at the authority to secure value for money against the three criteria of financial sustainability, governance and improving the 3 E's (economy, efficiency and effectiveness).</p>	<p>Consistent with the risk assessment communicated in our audit plan, we have not identified any indications of significant value for money weaknesses to date.</p>

# Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<b>Audit Plan</b> We are required to issue a detailed audit plan to the Audit & Accounts Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.	July 2021	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the January Audit & Accounts Committee.	January 2022	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statements and will be signed following the meeting of the Audit & Accounts Committee in January 2022.	January 2022	Not yet due
<b>Auditor's Annual Report</b> This Report communicates the key issues arising from our Value for Money work.	April 2022	Not yet due

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# What can be learned from Public Interest Reports?– Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

- 1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
- 2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

- 3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
- 4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1) The context of local government in a COVID-19 world
- 2) Governance, scrutiny, and culture
- 3) Local authority leadership.

The full report is available here:

[Lessons from recent Public Interest Reports | Grant Thornton](#)

# Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \[grantthornton.co.uk\]](https://www.grantthornton.co.uk/transparency-report-2020)

# Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry for Housing, Communities and Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to Covid-19 in 2020-21. Overall, local authorities spent £6.9bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)						
	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	0.473	1,254.880	848.656	663.404	413.842	<b>3,181.254</b>
Children's social care - total (excluding SEND)	0.000	94.933	131.127	89.799	62.987	<b>378.846</b>
Housing - total (including homelessness services) excluding HRA	63.129	5.254	74.949	42.281	112.971	<b>298.584</b>
Environmental and regulatory services - total	33.564	68.097	67.512	66.704	63.556	<b>299.433</b>
Finance & corporate services - total	48.222	53.445	83.984	76.923	78.284	<b>340.858</b>
All other service areas not listed in rows above	184.550	634.578	584.924	564.737	395.137	<b>2,363.926</b>
<b>Total</b>	<b>329.937</b>	<b>2,111.187</b>	<b>1,791.153</b>	<b>1,503.848</b>	<b>1,126.777</b>	<b>6,862.902</b>



The figures are available in full here:  
<https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)						
	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276.498	0.000	194.192	207.351	537.667	<b>1,215.708</b>
Council tax	399.037	0.000	217.633	191.219	232.727	<b>1,040.616</b>
Sales fees and charges	516.426	194.923	553.907	396.745	475.728	<b>2,137.728</b>
Commercial income	82.448	24.159	120.629	204.211	52.154	<b>483.600</b>
Other	33.494	39.947	27.163	53.664	45.166	<b>199.435</b>
<b>Total</b>	<b>1,307.903</b>	<b>259.029</b>	<b>1,113.524</b>	<b>1,053.190</b>	<b>1,343.441</b>	<b>5,077.087</b>

# Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond's independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states "The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively."

The press release goes on to state the "measures finalise the government's response to Sir Tony Redmond's independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

<https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response>

# 2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.”

By 30 November, Grant Thornton had signed 113/208 audits (a 55% completion rate), meaning that only 45% of audit opinions were not signed by 30 November, compared to the 55% all firms average.

PSAA go on to note “This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)



# Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA’s proposals closes on 8 July.



The news article can be found here:

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>



# Informing the audit risk assessment for Stafford Borough Council 2020/21

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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 process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Stafford Borough Council's external auditors and Stafford Borough Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Stafford Borough Council's management. The Audit, Risk & Assurance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>Covid 19 represented a major issue for 2020/21 .</p> <p>The Council in adopting a Response /Recovery and Reform strategy have had to assist the vulnerable , businesses and the community during this period. In particular this involved the payment of grants to businesses and the accounting for business rates holidays for the Leisure, Recreation and Hospitality .</p> <p>The Council have received additional government grants in relation to the above and un ring fenced grants to support the councils additional expenditure and loss of income from fees and charges .</p> <p>The pandemic will also impact on the various accounting estimates of the Council including land and property valuations and investments including both the pension fund and the councils own investments</p> <p>Sports across Staffordshire went from hosted to a charity during the financial year. It was envisaged that IFRS 16 would also impact the accounts but this has subsequently been delayed a year. It was also envisaged that MCC business rates appeal provisions would also impact the accounts but due to government legislation this has not yet materialised.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Stafford Borough Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Accounting policies have been reviewed. The Councils policy in relation to the treatment of Government Grants, reflecting agent or principal considerations of COVID related business grants , has been amended.</p> <p>There are no other events or transactions that will require us to change or adopt new policies</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>Financial instruments used are only in relation to</p> <ul style="list-style-type: none"> <li>Money Market Funds</li> <li>Fixed term deposits</li> <li>Certificate of deposit</li> </ul>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>In addition to Business Support grants transactions have taken place with Freedom leisure and Veolia as a result of COVID 19.</p>



# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Not aware of any changes
6. Are you aware of any guarantee contracts?	Not aware of any
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Stafford Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Solicitors used on insurance claims, appointed by insurance agents.</p> <p>Agency solicitors used in legal to cover vacancies</p> <p>Solicitors appointed in respect of potential development scheme.</p> <p>None</p>

# General Enquiries of Management

Question	Management response
9. Have any of the authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Link asset services – Treasury</p> <p>Lambert Smith Hampton – Fixed asset valuations</p> <p>Other advisors used for land valuations and professional advice on regeneration</p>

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Risk & Assurance Committee and management. Management, with the oversight of the Audit Risk & Assurance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Risk & Assurance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Stafford Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Risk & Assurance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Risk & Assurance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Stafford Borough Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Have Stafford Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do Stafford Borough Council's risk management processes link to financial reporting?</p>	<p>Although there is an on-going risk of fraud being committed against the Council arrangements are in place to both prevent and detect fraud. The S151 Officer has the overall responsibility for assessing the risk of material misstatement in the financial statements and is supported by management who provide the appropriate evidence for this assessment. In addition, work is carried out by Internal Audit on overall fraud risk areas and specifically on Council Tax, Housing Benefit and Social housing fraud. All work undertaken by Internal Audit has fraud considerations built into it. The risk of material misstatement of the accounts due to undetected fraud is low. Investigation into Revenues &amp; Housing fraud is the responsibility of the compliance team within Revenues and benefits.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The classes of transactions most at risk, relate to accounts payable, council tax and housing benefit. However the payment of COVID Business Support grants represented an additional risk in 2020/21.</p>

# Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Stafford Borough Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>None.</p> <p>Risk issues are communicated as part of internal audit reporting on a quarterly basis to audit and accounts and also via the Annual Governance statement</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Stafford Borough Council where fraud is more likely to occur?</p>	<p>No specific fraud risks have been identified in the year.</p> <p>The potential for fraud exists in the application for financial benefits or assistance or in the handling of financial transactions.</p> <p>Fraud generally is likely to occur in the Revenues and Benefits function and the payment of creditors function.</p>
<p>5. What processes do Stafford Borough Council have in place to identify and respond to risks of fraud?</p>	<p>The Council have in place the following frameworks Anti Fraud and Bribery ; Confidential Reporting and Money Laundering. Internal Audit to review internal control procedures on a regular basis.</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Stafford Borough Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Misreporting could occur whereby management overrides controls however internal control and internal audit reviews are in place to mitigate this potential</p>

# Fraud risk assessment

Question	Management response
<p>8. How do Stafford Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council has a staff code of conduct, Confidential Reporting Framework and Financial regulations in place. All staff are regularly reminded of these. In respect of contractors ethical considerations are built into all contracts.</p> <p>There is an Anti Fraud and corruption framework and a Confidential reporting framework in place which explain the procedures to follow. Staff are expected to report suspicious or fraudulent behaviour. No significant issues have been reported and no issues have been reported under the bribery act.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The posts involved in the functions as identified in question 4 are potentially high risk posts together with Treasury Management . Internal control; Procedure notes; Separation of duties and management review exist to assess and manage this situation</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>2019/20 financial statement disclosure of related party transactions did not identify any potential fraud risks. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>

# Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Risk &amp; Assurance Committee?</p> <p>How does the Audit Risk &amp; Assurance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Internal Audit Risk Based Plan is approved by the Audit and Accounts Committee before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and report regularly to Audit and Accounts Committee. The Audit and Accounts Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, Audit and Accounts Committee members receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>We had one case of Whistleblowing come in Feb 2020 (so just before this financial year for SBC). This proved to be more about procedures. This followed the Confidential Reporting process and found not to be proved.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None</p>



# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Risk & Assurance Committee, is responsible for ensuring that Stafford Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Risk & Assurance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Stafford Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the authority's regulatory environment that may have a significant impact on the authority's financial statements?</p>	<p>The Monitoring Officer, Heads of Service and Management are responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that the Monitoring Officers responsibilities cover:</p> <ul style="list-style-type: none"> <li>■ complying with the law of the land (including any relevant Codes of Conduct);</li> <li>■ complying with any General Guidance issued, from time to time, by the Standards Committee and / or advice of the Monitoring Officer;</li> <li>■ making lawful and proportionate decisions; and</li> <li>■ generally, not taking action that would bring the Council, their offices or professions into disrepute.</li> </ul> <p>The Monitoring Officer has access to all Council committee reports and raises awareness on legal requirements at meetings where needed. In addition in terms of any specific legal issues the Monitoring Officer would get involved at an early stage.</p> <p>Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution.</p> <p>The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements.</p> <p>Work undertaken by Internal Audit ensures compliance with the relevant laws and regulations</p> <p>None.</p>
<p>2. How is the Audit Risk &amp; Assurance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>All committee papers (with the exception of the Audit and Governance Committee) are required to include an assessment of potential legal implications.</p> <p>Assurance is also provided through the Internal Audit Annual Report and opinion and the Annual Governance Statement.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>Management are not aware of any</p>

# Impact of laws and regulations

Question	Management response
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No
5. What arrangements does Stafford Borough Council have in place to identify, evaluate and account for litigation or claims?	The Monitoring Officer and the Section 151 Officer identify and evaluate the impact of litigation and claims which are then recorded as expenditure, as a provision or disclosed as a contingent liability in the accounts. This impact is mitigated in some cases by appropriate insurance cover.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

# Related Parties

## Issue

### Matters in relation to Related Parties

Stafford Borough Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Stafford Borough council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Stafford Borough Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Stafford Borough Council</li> <li>whether Stafford Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>None.</p>
<p>2. What controls does Stafford Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>■ Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</li> <li>■ Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.</li> <li>■ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history.</li> <li>■ Review of the accounts payable system and identification of amounts paid to assisted or voluntary organisations.</li> </ul>

## Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Staff have different authorisation levels within the authority so related party transactions of a significant value could only be signed off by Heads of Service, the Chief Executive and the Section 151 Officer. Any transactions would require a review of the related party disclosure or register of interest to ensure a fair process.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	The Council's Financial Regulations contain rules for emergency situations and dealing with situations outside of the standard budget and policy framework. These include waivers by senior officers or emergency approval processes by Members.

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The most significant transactions relate to Pensions, PPE, Sundry Debts, Council , business Rates, Financial Instruments and Provisions as outlined in Appendix A.</p> <p>COVID 19 will have a potential impact on all such classes .</p> <p>For Pensions, Stafford Borough Council is part of the Staffordshire County Council Pension. Each year the appointed actuaries make key financial assumptions regarding the Pension Increase Rate, the Salary Increase Rate and the Discount Rate alongside changes in retirement ages, mortality rates and expected returns on pension fund investments. Depending on these assumptions, changes to estimates within the Statement of Accounts may be required.</p> <p>For transactions relating to PPE, an appointed external valuer for Lambert Smith Hampton provides estimates based on the condition, maintenance and repairs of the Council's individual assets. The economic climate and any change in funding can reduce the resources available to fund repairs thereby potentially leading to a change in estimates and related disclosure notes not just in terms of value but in terms of the estimated UEL which also impacts depreciation and impairment. Furthermore, any changes in accounting standards could also impact estimates and the related disclosures.</p> <p>Sundry Debt, Council Tax and Business Rate estimates are based on a review of significant balances and collection rates within the current economic climate. However, any economic climate volatility can lead to a change in collection rates which in turn could lead to a change in debtor estimates.</p> <p>Business Rates appeals are based on current rates. Any change in economic conditions could cause appeal numbers to increase therefore leading to a change in estimates. Subject to a decision on the current legislation going through government, MCC business rates appeal provisions which have currently been halted, could still potentially impact the accounts leading to change in potential estimates.</p> <p>For financial instruments, estimates are based on fair value and are based on the advice provided by the Treasury function and other finance professionals. Should market conditions change this could give rise to the need for changes in financial estimates.</p> <p>Provision estimates are measured at a best estimate of the expenditure required to settle an obligation taking into account relevant risks and uncertainties. Should any of these assumptions change, there may</p>



# Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Where management recognizes it is not an expert and where it is best practice to do so, the Authority will bring in external expertise with the relevant skills and knowledge to provide robust and informed accounting estimates. Where the skills exist in-house, management identify the appropriate finance/technical staff to undertake this function.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>The Authority uses best practice to determine the control activities required to deliver accounting estimates. For asset valuations, accounting standards specify that formal revaluations need to be sufficiently regular to ensure the carrying amount does not differ materially from fair value at the year end. As the authority does not retain an internal valuer with the necessary skills to undertake this work, the Authority has a contract in place with an external provider to deliver this service. The contract outlines the skills and expertise required to deliver robust accounting estimates as determined by Accounting Standards.</p> <p>For Council Tax and Business Rates, the Authority uses best practice to deliver accounting estimates with working papers to support the estimates and the basis for the estimate calculation. Specific staff with the relevant skills and experience are tasked with producing these estimates. The Council also utilises Analyse Local information to validate Business Rates Accounting Estimates</p> <p>For Pensions, the Authority has a contract in place with a registered Actuary and relies on the technical standards set by regulations to deliver the robust estimates required.</p> <p>For financial instruments the Authority recognises the requirement of external expertise and as such uses external finance professionals to inform the estimates.</p> <p>For Provisions, again the Authority recognises through best practice the need for external expertise and as such utilises the knowledge of third parties such as insurers and solicitors to inform the estimate calculations.</p>
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	For estimates produced in-house, there is a process of management review whereby the S151 Officer and other senior staff check the working papers produced by the relevant officers before the estimates are approved and the necessary figures are inserted into the Statement of Accounts.

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	None identified.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
12. How is the Audit, Risk and Assurance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Assurance is given by the use of expert advisers in relation to fixed assets and pensions, also via the statement of accounts which highlight the major areas of estimates.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Valuations are made by an external valuer (Lambert Smith Hampton) all assets except equipment. Valuations are in line with RICS guidance on the basis of 5 year rolling valuations based on classes of asset with an interim desk top review to compare the carrying values and fair values.	Accounting standards require formal revaluations sufficiently regular to ensure the carrying amount does not differ materially from fair value at the year end. In addition valuations must be carried out simultaneously for each class of asset.	External Valuer	Valuations are made in line with guidance-reliance on an expert.  Valuations undertaken for each class of asset simultaneously.	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: ■ Other land buildings 5 to 70 years ■ Equipment/vehicles 7 to 15 years ■ Infrastructure 25 years These are based on information from the valuer.	Consistent asset lives applied to each asset category	External Valuer	The method makes some generalisations. For example, a new building can have a life as short as 5 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS or CIB Member. The valuer is appropriately qualified.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis. Asset Lives and values are obtained from the valuer	Consistent application of depreciation method across all assets.	No	The length of the life is determined at the point of acquisition or revaluation according to: ■ Depreciation is not applied in the year of Addition ■ Assets that are not fully constructed are not depreciated until they are brought into use	No.
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Finance Staff are in regular dialogue with Property Services and asset users to monitor any potential impairment issues during the year. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Use of external valuer.	Valuations are made in-line with RICS guidance - reliance on expert.	No
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their internal treasury consultants and other finance professionals.	Take advice from finance professionals	Yes Link Asset Services	Take advice from finance professionals, if required.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Calculations by Head of Finance based on information from third parties e.g. insurers and solicitors.	No	Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the service if it is virtually certain that reimbursement will be received by the Council.	No
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing	Members of the Finance team calculate the provision from the aged debt listing based on prior experience and any changes in events during the year e.g COVID 19	No	Consistent proportion used across aged debt as per the Code. This is based on type of debt and historic payment pattern.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance team collate accruals of Expenditure and Income from purchase ledger and budget information. Activity is accounted for in the financial year that it takes place, not when money is paid or Received.	Purchase ledger and management accounts information assessed by Finance team.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Non Adjusting events – events after the balance sheet date	S 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un adjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Heads of service notify S151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The Council is an admitted body to the Local Government Pension scheme.	Rely on the calculations made by the actuary, based on information provided by the Authority. The Actuary's report is reviewed for reasonableness by senior staff.	Yes - Actuary for the pension schemes	Reliance on expertise of the actuaries of the pension Scheme	No
Finance Leases	Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	Finance review contracts and payments to ensure the lease is categorised correctly as a finance lease or an operating lease	No	Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).	No





**ITEM NO 3(e)****ITEM NO 3(e)**

<b>Report of:</b>	<b>Head of Governance</b>
<b>Contact Officer:</b>	<b>Judith Aupers</b>
<b>Telephone No:</b>	<b>01543 464411</b>
<b>Ward Interest:</b>	<b>Nil</b>
<b>Report Track:</b>	<b>Audit and Accounts 10/11/21, Council (tbc)</b>

**AUDIT AND ACCOUNTS COMMITTEE****10 NOVEMBER 2021****Appointment of External Auditors****1 Purpose of Report**

- 1.1 To determine whether to opt into the national scheme for external auditor appointments from April 2023.

**2 Recommendation**

- 2.1 That the Committee recommends to Council to approve the opting-in to the national scheme for external auditor appointments from April 2023.

**3 Key Issues and Reasons for Recommendation**

- 3.1 Since the abolition of the Audit Commission on 31 March 2015, Councils have had the choice of procuring and appointing their own External Auditors or opting into a national scheme. Following the ending of transitional arrangements, the Council elected to opt-in to the national scheme operated by Public Sector Audit Appointments (PSAA).
- 3.2 The current contract and arrangements will end in March 2023 and a decision on whether to opt-in to the national scheme again needs to be made by 11 March 2022.
- 3.3 If the Council determines not to opt-into the national scheme, alternative arrangements will need to be made for the procurement and appointment of an external auditor. Two options exist to the Council as follows:
- Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council;

- To commence work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

3.4 The preferred option is to opt-in to the National Scheme as it is considered that this offers best value for money and assures the appointment of a suitably qualified and independent auditor.

#### **4 Relationship to Corporate Business Objectives**

4.1 The appointment of External Auditors is a Statutory Requirement and contributes to the corporate priority of “To be a well-run, financially sustainable and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives”.

#### **5 Report Detail**

5.1 External auditors were traditionally appointed by the Audit Commission, under the Audit Commission Act 1998. However, the Audit Commission was abolished on 31 March 2015 and the existing External Audit contracts transferred to Public Sector Audit Appointments Limited (PSAA).

5.2 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association. It was originally established, under powers delegated by the Secretary of State, to operate the transitional arrangements of existing contracts that were scheduled to terminate in March 2017 and were subsequently extended for a further year.

5.3 In July 2016 PSAA were specified by the Secretary of State as an ‘appointing person’ under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This allowed PSAA to make auditor appointments to relevant principal local government bodies that chose to opt-in to the national appointment arrangements for external auditors from 2018/19.

5.4 In February 2017 the Council agreed to opt-in to the national appointment scheme.

5.5 The current contract and arrangements will end in March 2023 and a decision on whether to opt-in to the national scheme again needs to be made by 11 March 2022. The Council has a duty to appoint new external auditors before the end of December 2022 in readiness for the 2023/24 audit of the accounts.

5.6 If the Council determines not to opt-into the national scheme, alternative arrangements will need to be made for the procurement and appointment of an external auditor. Two alternative options exist to the Council as follows:

- Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council;
- To commence work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

5.7 There are benefits and disadvantages for each of the options. The main benefit of opting-in to the national scheme is that it offers value for money and assures the appointment of a suitably qualified and independent auditor. The two alternative options will be considerably more resource intensive for the Council and potentially more expensive due to:

- the requirement to establish an Audit Panel and undertake a procurement exercise; and
- the lack of the ability to offer a suitably large contract value to the market place.

Furthermore, it is anticipated that there will be little if any interest in undertaking a joint procurement locally.

5.8 The Council's procurement regulations support the use of framework agreements reflecting the increased contract value available to the market.

5.9 In the context of procuring a service the Council's influence in determining service provision is severely limited. The specification or scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, the scope of public audit is wider than for private sector organisations with as an example the external auditor being required to form a conclusion on the body's arrangements for securing value for money.

Potential providers will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

5.10 The preferred option is to opt-in to the national sector led scheme, as supported by the Local Government Association in its letter attached as an **APPENDIX**.

6 Implications	
6.1 <b>Financial</b>	There are no direct Financial Implications of the recommendation to opt-in to the National led scheme and this provides the best opportunity to ensure value for money in the appointment process. There will be no fee to join the sector led arrangements. The other options available for consideration would include the cost of establishing an Audit Panel and procuring an External Auditor via Tender process for which there is no budget provision. Provision is made within the budget for the cost of the External

	Auditors fees.
<b>Legal</b>	<p>Local Audit and Accountability Act 2014 states a relevant authority must appoint an auditor (a “local auditor”) to audit its accounts for a financial year not later than 31 December in the preceding financial year and that a relevant authority must consult and take into account the advice of its auditor panel on the selection and appointment of a local auditor.</p> <p>Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 enables the appointment of an External auditor to be made by a person specified by the Secretary of State (“an appointing person”) to audit the accounts of those authorities that choose to opt-in to such arrangements. The decision to opt-in to the sector led procurement process, instead of an Audit Panel, must be made by a meeting of the full Council.</p>
<b>Human Resources</b>	Nil
<b>Human Rights Act</b>	Nil
<b>Data Protection</b>	Nil
<b>Risk Management</b>	The opt-in proposal minimises the risk of the appointment process. This includes both the appointment by the due date and ensuring value for money in the procurement exercise.

<b>6.2 Community Impact Assessment Recommendations</b>	<p>Impact on Public Sector Equality Duty:</p> <p>Wider Community Impact:</p>
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**Previous Consideration - Nil**

**Background Papers - Report to Council 21 February 2017 (minute no C60/17)**

From the Chairman of the Association  
Cllr James Jamieson



**To: Mayors/Leaders/Chief Executives/Chief Finance Officers  
of English Principal Councils**

23 September 2021

Dear Tim Clegg,

**Retender of External Audit Contracts**

I am writing because your council must shortly make a decision whether to opt into the national arrangement for the procurement of external audit or procure external audit for itself, and to set out the LGA's view on that decision.

In most councils this matter will be considered first in detail by the Audit Committee. You will therefore no doubt wish to pass on a copy of this letter and the more detailed attachment to the colleague who chairs the relevant committee.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The practical deadline for this decision is 11<sup>th</sup> March 2022. As this is a decision for the Full Council, I wanted to ensure that you had sight of the letter that has been sent to audit and finance colleagues and that you are aware of the crucial issues to be considered.

The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix.

Nevertheless, the LGA's view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

We believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.

The information attached goes into more detail about the background to this decision. My officers will be happy to answer any questions you may have. Please contact Alan Finch ([alan.finch@local.gov.uk](mailto:alan.finch@local.gov.uk)) if you have any issues you would like to raise.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Jamieson'.

Cllr James Jamieson  
Chairman

cc: Chief Executive  
Chief Finance Officer

### **RETENDER OF EXTERNAL AUDIT CONTRACTS**

#### **Information from the LGA for those charged with governance**

The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11<sup>th</sup> March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- Procuring for yourself provides no obvious benefits:

- The service being procured is defined by statute and by accounting and auditing codes
- Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
- Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
  - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.
  - PSAA has commissioned high quality research to understand the nature of the audit market.
  - It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year

Councils need to consider their options. we have therefore attached a list of Frequently Asked Questions relating to this issue which we hope will be useful to you in reaching this important decision.

When the LGA set up PSAA in 2015, we did so with the interests of the local government sector in mind. We continue to believe that the national arrangement is the best way for councils to influence a particularly difficult market.

If you have any questions on these issues please contact Alan Finch, Principal Adviser (Finance) ([alan.finch@local.gov.uk](mailto:alan.finch@local.gov.uk)).

**ITEM NO 3(f)****ITEM NO 3(f)**

<b>Report of:</b>	<b>Head of Law and Administration</b>
<b>Contact Officer:</b>	<b>Ian Curran</b>
<b>Telephone No:</b>	<b>01785 619220</b>
<b>Ward Interest:</b>	<b>Nil</b>
<b>Report Track:</b>	<b>Audit and Accounts 10/11/21 (Only)</b>

**AUDIT AND ACCOUNTS COMMITTEE**  
**10 NOVEMBER 2021**  
**Annual RIPA Review**

**1 Purpose of Report**

- 1.1 This annual report provides details of the use of powers under the Regulation of Investigatory Powers Act (RIPA) by the Council.

**2 Recommendation**

- 2.1 That the report be noted.

**3 Key Issues and Reasons for Recommendation**

- 3.1 Local authorities carry out investigations for a variety of regulatory services. In carrying out these duties, they have general powers to conduct surveillance of individuals suspected of committing offences. The Regulation of Investigatory Powers Act 2000 (RIPA) was introduced to regulate public authority use of covert surveillance powers to ensure that any use is compliant with human rights.
- 3.2 The Home Office Code of Practice for Covert Surveillance and Property Interference, recommends that elected members of an authority should review the authority's use of RIPA and set the policy at least once a year.
- 3.3 This is an annual report to members, in accordance with good practice, and is for information only.

**4 Relationship to Corporate Business Objectives**

- 4.1 Leading and delivering for our community.



<b>5</b>	<b>Report Detail</b>
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- 5.1 The Regulation of Investigatory Powers Act 2000 (RIPA) regulates the use of certain surveillance powers by public authorities, including:
- Directed Surveillance (covert surveillance conducted as part of a specific investigation likely to result in obtaining private information about an individual),
  - Use of Covert Human Intelligence Sources (CHIS), and
  - Access to communications data (e.g. details of subscribers to telephone numbers or email accounts)
- 5.2 The Council is a very rare user of these powers. However, it is important that it has sufficient oversight of its activities to ensure that any considered use is compliant with the subject's human rights.
- 5.3 The Home Office publishes national Codes of Practice on the use of RIPA powers by public authorities. The Council must have regard to the relevant Code of Practice whenever exercising powers covered by RIPA. The Investigatory Powers Commissioner conducts regular inspections of all public authorities to ensure compliance with RIPA, and the Codes of Practice.
- 5.4 The Council has adopted its own Surveillance Policy to advise officers on RIPA obligations and to regulate any use of these powers. The Policy was last updated by Cabinet in October 2019 to reflect changes in the law and Codes of Practice. The policy is therefore up to date in that respect.
- 5.5 The Head of Law and Administration acts as the Senior Responsible Officer for RIPA, with oversight of the Council's internal procedures. The Legal Services Manager acts as the RIPA Co-ordinating Officer, ensuring that any request to use RIPA powers is co-ordinated through, and recorded in, a central register. The Legal Services Manager also acts as a source of advice to regulatory officers and supports the Senior Responsible Officer in keeping the Council's policy up to date.
- 5.6 As part of the policy, the use of any RIPA powers must first be approved by a Chief Officer trained to be a RIPA Authorising Officer. The Council has two Chief Officers who have received suitable training. If the Chief Officer gives approval, then an application must still be made to the Magistrates Court for independent judicial approval before the surveillance takes place (NB. the Office for Communications Data Authorisations gives judicial approval in respect of accessing communications data).
- 5.7 The Council has not used RIPA powers in the last 12 months. The last RIPA authority having been obtained in 2015.

<b>6</b>	<b>Implications</b>
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6.1	<b>Financial</b>	Nil
	<b>Legal</b>	As set out in the report
	<b>Human Resources</b>	Nil
	<b>Human Rights Act</b>	As set out in the report
	<b>Data Protection</b>	Nil
	<b>Risk Management</b>	Nil

6.2	<b>Community Impact Assessment Recommendations</b>	<p>Impact on Public Sector Equality Duty: Nil</p> <p>Wider Community Impact: Nil</p>
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<b>Previous Consideration - Nil</b>
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<b>Background Papers - Nil</b>
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