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Date: 21 May 2024

To all Members of the Governance Scrutiny Group

Dear Councillor

A Meeting of the Governance Scrutiny Group will be held on Thursday, 30 May 2024 at 7.00 pm in the Council Chamber, Rushcliffe Arena, Rugby Road, West Bridgford to consider the following items of business.

This meeting will be accessible and open to the public via the live stream on YouTube and viewed via the link: <https://www.youtube.com/user/RushcliffeBC>
Please be aware that until the meeting starts the live stream video will not be showing on the home page. For this reason, please keep refreshing the home page until you see the video appear.

Yours sincerely



Gemma Dennis
Monitoring Officer

AGENDA

1. Apologies for Absence
2. Declarations of Interest

[Link to further information in the Council's Constitution](#)

3. Minutes of the Meeting held on 2 February 2024 (Pages 1 - 10)
4. Internal Audit Progress Report (Pages 11 - 34)
Report of the Director – Finance and Corporate Services
5. Internal Audit Annual Report (Pages 35 - 60)
Report of the Director – Finance and Corporate Services
6. Annual Fraud Report (Pages 61 - 70)
Report of the Director – Finance and Corporate Services



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**Monday, Tuesday and
Thursday**
8.30am - 5pm
Wednesday
9.30am - 5pm
Friday
8.30am - 4.30pm

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7. External Audit Annual Plan (Pages 71 - 114)
Report of the Director – Finance and Corporate Services
8. Annual Governance Statement (Pages 115 - 138)
Report of the Director – Finance and Corporate Services
9. Capital and Investment Strategy Outturn (Pages 139 - 154)
Report of the Director – Finance and Corporate Services
10. Work Programme (Pages 155 - 156)
Report of the Director – Finance and Corporate Services

Membership

To be confirmed at the Annual Council meeting on Thursday 23 May 2024

Meeting Room Guidance

Fire Alarm Evacuation: in the event of an alarm sounding please evacuate the building using the nearest fire exit, normally through the Council Chamber. You should assemble at the far side of the plaza outside the main entrance to the building.

Toilets: are located to the rear of the building near the lift and stairs to the first floor.

Mobile Phones: For the benefit of others please ensure that your mobile phone is switched off whilst you are in the meeting.

Microphones: When you are invited to speak please press the button on your microphone, a red light will appear on the stem. Please ensure that you switch this off after you have spoken.

Recording at Meetings

The Openness of Local Government Bodies Regulations 2014 allows filming and recording by anyone attending a meeting. This is not within the Council's control.

Rushcliffe Borough Council is committed to being open and transparent in its decision making. As such, the Council will undertake audio recording of meetings which are open to the public, except where it is resolved that the public be excluded, as the information being discussed is confidential or otherwise exempt



MINUTES OF THE MEETING OF THE GOVERNANCE SCRUTINY GROUP THURSDAY, 22 FEBRUARY 2024

Held at 6.30 pm in the Council Chamber, Rushcliffe Arena, Rugby Road, West
Bridgford

and live streamed on Rushcliffe Borough Council's YouTube channel

PRESENT:

Councillors A Edyvean (Chair), P Gowland (Vice-Chair), T Birch, S Calvert,
H Om, N Regan, C Thomas, R Butler and S Ellis

ALSO IN ATTENDANCE:

Mr M Surridge – Mazars the Council's External Auditors

Mr G Rubens – BDO the Council's Internal Auditors

Mr M Armstrong – BDO the Council's Internal Auditors

OFFICERS IN ATTENDANCE:

P Linfield

Director of Finance and Corporate
Services

S Whittaker

Service Manager - Finance

N Berry

Senior Property Surveyor

M Heald

Finance Business Partner

T Coop

Democratic Services Officer

APOLOGIES:

Councillors D Simms and G Wheeler

31 Declarations of Interest

There were no declarations of interest.

32 Minutes of the Meeting held on 23 November 2023

The minutes of the meeting held on 23 November 202 were approved and
were signed by the Chairman.

The Group noted that the Monitoring Officer and the Service Manager –
Finance had responded to the actions from the meeting on 23 November 2023.

Councillor Thomas asked if it could be considered to make the West Bridgford
Special Expenses and CIL Advisory Group a public meeting. The Director –
Finance and Corporate Services agreed to take this back as an action.

Councillor Calvert questioned why Governance Scrutiny Group were not being
asked to consider and approve the changes to the Constitution in respect the
amendments to the Council's Planning Committee arrangements. It was noted
that the Chairman of the Member Working Group for the Planning Committee
amendments and the Chairman of Planning Committee had approved the
changes which will be going to Full Council at its meeting on 7 March 2024.

33 **Annual Audit Letter and Value for Money Conclusion**

Mr Surridge from Mazars the Council's External Auditors presented the Council's audit arrangements for the financial year 2022/23 and reported there were no significant weaknesses identified and no recommendations arising. The Group were asked to note the report was positive in context of the troubles across the sector in relation to finance and audit. Mr Surridge advised there are no major concerns and no actions are required by the Council.

Members asked a specific question relating to the Auditors observation and recommendation that the Council consider having an 'Audit Committee' instead of Governance Scrutiny Group and questioned the proposals from the Redmond Review for independent members to ensure the membership of an audit committee has adequate skills and experience to be able to challenge the complexities of local government finance and asked if it was something the Council should be considering for future meetings. The Director - Finance and Corporate Services explained that the Governance Scrutiny Group is effectively the Council's Audit Committee and with regards to the Redmond Review it was noted that other local authorities had tried but not successfully to recruit an independent member.

It was **RESOLVED** that the Governance Scrutiny Group note the receipt of the Annual Audit Letter.

34 **External Annual Audit Plan**

Mr Surridge from Mazars, the Council's External Auditors provided the Group with a verbal update in respect of the External Audit Plan for the financial year 2023-2024 and explained there had been a back log of work due to consultation and amendments to the Code of Practice that has required extra time to complete the audit. The Group were advised that the External Audit Plan is likely to be completed over the summer and would be brought back to Governance Scrutiny Group at its meeting in September.

The Chairman asked whether the proposed rise in audit fees for 2024/25 reflect an anticipated increase in length of time taken to complete the audit thus requiring more officer time. Mr Surridge explained the fees are determined by a procurement process and the scope of work set out in the Code of Practice.

Members asked how Rushcliffe Borough Council compares with other similar Council's in respect of delays with audit completions. Mr Surridge advised that Rushcliffe was in a good position and is early to complete in comparison with other authorities, adding that this was due to good accuracy and quality financial statements from officers and that the Council was in a good position going forward.

The Director – Finance and Corporate Services added that the audit is up to date and thanked the external audit team for keeping the audit on track. With reference to the rise in fees the Director – Finance and Corporate Services added that Audit Standards determine the amount of work spent on areas such

as plant, property and equipment and the pension liability which may change ultimately reducing the time required.

35 Internal Audit Progress Report Q3

Mr Armstrong from BDO the Council's Internal Auditors presented the third Internal Audit Report for this financial year which reflects the progress made for the year against the annual internal audit programme. The report highlighted the completion of three reports and their findings as follows:

The Country Park Income – the audit received a moderate rating for Design and Substantial rating for Effectiveness with one medium recommendation for the process of banking cash and two low level recommendations in respect of cash receipts and procedural notes.

The Governance of Partnership – the audit received a substantial rating for both Design and Effectiveness, with one low level recommendation with regard to the Community Safety Partnership's Terms of Reference.

The Grant Management Controls – the audit received a substantial rating to both Design and Effectiveness with two low level recommendations in respect of fraud prevention and a delayed payment to Eon.

Management actions had been agreed for all recommendations.

The Group noted the internal audit is on target for completion in line with the audit plan.

Members of the Group asked specific questions relating to the 10 houses that received the Local Authority Delivery Phase 3 grant scheme (LAD3) and what were the property types and how were the properties selected. In respect of grant fraud, Councillor Thomas raised the issue of targeted cold calling which caused residents to be suspicious and potentially missed out on grant funding. The Service Manager – Finance explained that residents could call the RCCC to verify the calls were genuine and Mr Armstrong offered to provide samples of the properties that received the LAD3 grant funding.

With regard to the Country Park, Councillor Birch asked officers to explain why receipts hadn't been provided for payment of services. Mr Armstrong advised that this was a low level recommendation and referred to payments received for activities on the day, adding that these were documented on a spreadsheet for audit purposes, however a customer receipt had not been provided. It was noted that the number that pay on the day was minimal. The Service Manager – Finance confirmed that most bookings for ranger led activities are made in advance where a receipt would be available.

It was **RESOLVED** that the Governance Scrutiny Group approve the Quarter 3 Progress report for 2023/24 (Appendix A) prepared by the Council's internal control environment.

36 Internal Audit Strategy 2024/2025

Mr Rubens from BDO the Council's Internal Auditors presented the Internal Audit Strategy for the period 2024-2027 which focuses on the planned audits due to take place in year two of the new cycle of audits. These were listed in Appendix A attached to the report.

The Group were informed that the plan is set within the context of a multi-year approach, in order that areas of key risk are aimed to be looked at over a three year audit cycle.

The Group were advised of the nine audits planned for 2024/25 covering a number of the Council's key policies and systems. These include:

- Main Financial Systems
- Budgetary Control
- Procurement
- Environment – Carbon Management Action Plan
- Workforce and Succession Planning
- Fraud Report
- Disabled Facilities Grants
- Equality, Diversity and Inclusion
- Cyber Security

Members asked a specific question relating to Cyber Security and what would the audit be looking at. Mr Rubens advised the audit would include the Council's Cyber Policy and Best Practice including firewalls and antivirus updates on all staff devices.

A question was asked about the Council moving its procurement function to Nottinghamshire County Council and how would this be audited. Mr Rubens explained this was an operational decision in partnership with the County Council and the audit would be based on its performance.

It was **RESOLVED** that Governance Scrutiny Group note and approve:

- a) The Internal Audit Strategy and Plan 2024/25-2026-2027
- b) The Internal Audit Charter, Appendix 1 of the Internal Audit Strategy and Plan

37 Asset Management Plan

The Senior Property Surveyor presented the bi-annual report of the Council's Asset Management Plan for the Group to review and assess all of the Council's commercial property portfolio, how individual properties are performing and what the expectations are for the next five to ten years in terms of income and cost.

Since the last review the Group were advised, the Council has completed the construction of Bingham Enterprise Centre, 12 self-contained offices within the

centre all currently being let to small businesses, showing the demand for high quality office space.

The Senior Property Surveyor informed the Group that the Council has recently had a new draft Energy Performance Certificate, (EPC) recalculations for all of its properties. This has indicated there will be a number of changes to the EPC ratings for the Council's property portfolio, the majority of which have improved, thus reducing the risk.

The Group noted the property portfolio also includes car parks, mast sites and land which were not included in this review. It was also noted the report did not cover the Council's community buildings or the Council's operational estate e.g. the Arena. The focus of the report is on the commercial property which is leased to businesses.

The Senior Property Surveyor advised that to facilitate the review a detailed spreadsheet has been produced and completed by both the property team and finance. Information on each property includes the following information:

- Value (current and projected 2028)
- Rent (current and projected 2028)
- Yield
- Estimated Refurbishment/Upgrade costs (over 10 years)
- Lease length
- Age of Asset
- EPC Rating
- Risk Rating

A summary table and graph were produced from the spreadsheet in Appendix A and B of the report to provide the Group with a 'at a glance' view of the commercial property portfolio.

In concluding the Group were informed the situation with commercial property can change relatively quickly, but through the ongoing monitoring of the Council's assets this is not anticipated to cause significant challenges over the coming months. In addition, it is important that Councillors are kept informed of the property portfolio. Any potential commercial property disposals are reported through Cabinet and reflected in the Council's Medium Term Financial Strategy approved at Full Council.

Councillor Regan asked why the two Arenas at West Bridgford and Bingham were not included in the review and when and at which scrutiny Group would the Council's leisure centres be scrutinised. It was noted that Leisure centres are classified as operational and would be scrutinised on their performance via Finance and Performance reporting to Cabinet and Corporate Overview Group.

Questions were raised about the energy performance of some of the properties and had the Council considered adding solar panels and whether there are opportunities to acquire any external funding to make improvements. The Senior Property Surveyor explained that there are multiple tenants, and this would be difficult to manage. The Director – Finance and Corporate Services added officers were looking at funding schemes to improve the energy

performance at Cotgrave Leisure Centre.

A question was raised in respect of land at Candleby Lane, Cotgrave and the issue around subletting. The Senior Property Surveyor explained that Rushcliffe Borough Council owned the land and Nottinghamshire County Council sublet the building, officers were looking at options to be reported to Cabinet.

It was **RESOLVED** that the Governance Scrutiny Group note the review of the of the Council's commercial property portfolio with both the review and any other comments from the Group being reported to Cabinet.

38 **Risk Management Update**

The Service Manager – Finance presented the Risk Management Progress report which provided the Group with a summary of the risks in the Council's Risk Registers that have changed, been removed or new risks that have been identified as a result of management reviews.

The Group noted that there are currently 38 corporate risks, 27 operational risks and four opportunity risks and these were provided in Appendix A of the report. There are no new risks, however Appendix B of the report outlined changes to risk descriptions and includes new risks that will be added to the Service Plans and future reports to Governance Scrutiny Group.

The Service Manager highlighted those risks that had decreased or increased risk ratings including:

OR_DEG06 Cost of defending appeals for large scale residential developments and potential award costs – Likelihood increased from 1 to 3 as Committee have refused two major (allocated) housing sites contrary to officer recommendation. Cost of defending appeals and payment of any costs claim awarded for unreasonable behaviour.

The Group discussed some of the issues around recent planning decisions that were contrary to Officers recommendation, highlighting the decisions for refusal had not been met without significant debate by the Planning Committee. Members of the Group questioned whether all Councillors should receive further guidance and training on planning policy and local planning policies so that Councillors have a better understanding of the planning pressures.

A specific question was asked with regards to the deletion of the risk in respect of the Afghan Relocation Programme and whether the Council should still be considering the failure to provide affordable housing as a risk. The Director – Finance and Corporate Services explained that it is difficult to find appropriate land and agreed to amend the wording in response to this issue.

A specific question was raised with regard to Rushcliffe Oaks crematorium and its under performance and whether this would have any significant effect on the Council's finances. The Service Manager – Finance explained the revenue expected from opening was only an estimation at the time it was set, which had not been met, however, the Group were assured the crematorium is not making

a loss and cremation services are increasing. It was noted that the Crematorium performance will be reported to Growth and Development Scrutiny Group at its meeting in July 2024.

A question was raised with regards to equal pay settlements. The Group were assured by the Director – Finance and Corporate Services that there were no concerns regarding equal pay.

It was **RESOLVED** that Governance Scrutiny Group:

- a) Note the contents of the report.
- b) Noted and provided comments on risks that had red alert status.

39 **Capital and Investment Strategy Monitoring Q3**

The Finance Business Partner presented the Capital and Investment activities of the Council for the period 1 April to 31 December 2023, which provided the Group with indicators that help ensure the Council's capital and investment plans are affordable, prudent and sustainable and meet the requirements of the CIPFA Code of Practice.

The Group were advised the UK is facing a weakening economic outlook and an uncertain political climate due to the upcoming general election.

With regards to investment income, the Group noted interest receipts are slightly higher than anticipated, the Council achieved an average interest rate of 5.11%, compared to the average (SONIA) rate of 4.94%. The Finance Business Partner advised that to maintain and mitigate risk, the Council has continued to diversify its investment mix and continue to consider 'green' investments that are compliant with the Council's strategy. The Council ensures investments are secure and that liquidity is achieved whilst proactively looking to maximise its rates of return. A full list of the Council's investments was provided in Appendix A of the report.

The Group noted the borrowing and prudential indicators as part of the Council's Capital and Investment Strategy and the credit balance shows that the Council has no need to borrow over the medium term.

With regards to commercial investments highlighted in Appendix D of the report, the Council must disclose its commercial income. The Council's target is not to exceed 30% with the current actual income around 15%, leaving it less exposed to risks surrounding commercial property.

A specific question was asked in respect of balances in the call accounts and why were the interest rates on these investments lower. The Service Manager – Finance explained these were the Council's everyday bank accounts where access to funds is needed to be immediate for the Council's day to day transactions.

It was **RESOLVED** that the Governance Scrutiny Group notes the Capital and Investment Strategy update position as of 31 December 2023

40 **Capital and Investment Strategy 2024/25**

The Finance Business Partner presented the Capital and Invest Strategy for 2024/25 to 2028/29 which focuses on both traditional treasury activity, commercial investments and capital plans and is the key component of the Council's Medium Term Financial Strategy (MTFS) approved by Council.

The Group noted the Capital and Investment Strategy 2024/25 and 2028/29 provided in Appendix A which reflects Government Guidance and the CIPFA Treasury Management and Prudential Codes.

In the supporting information the Finance Business Partner explained the four areas of Treasury Management:

Capital Prudential Indicators

- Projected capital expenditure plans and funding
- The Council's borrowing need (Capital Financing Requirement CFR)
- The ongoing impact of the capital programme on the investment balance
- Projected levels of Council debt and CFR

Minimum Revenue Provision Policy

The Minimum Revenue Provision (MRP) Policy statement contains details of the methodology used to calculate the charge to the revenue account for the cost of borrowing to fund capital expenditure.

Treasury Management Strategy

- Current economic climate and interest rates
- The Council's Borrowing Strategy
- The affordability of the capital programme
- The Council's Investment Strategies
- Any local treasury issues.

Commercial Investments

- The limit of the Council's dependency on commercial income
- How risk is spread across both commercial sectors and the size of investments in relation to asset value
- An ongoing review of existing assets

The Finance Business Partner advised that the Capital Prudential Indicators and Treasury management Strategy provide both a position statement and details of the future position of the Council's Capital, Commercial Investment Treasury Plans.

The Group complimented officers on the recent treasury training delivered by Arlingclose the Council's Treasury Management advisors which Councillors found interesting and helpful when it comes to understanding the complexity of the Council's Treasury Management activities.

It was **RESOLVED** that the Governance Scrutiny Group scrutinise and approve for Full Council:

- a) The Capital Strategy and Capital Prudential Indicators and limits for 2024/25 to 2028/29 contained in Appendix A (paragraph 4 to 15)
- b) The Minimum Revenue Position (MRP) Statement contained within Appendix A (paragraph 16 and 17) which sets out the Council's policy on MRP
- c) The Treasury Management Strategy 2024/25 to 2028/29 and the Treasury Indicators contained within Appendix A (paragraphs 18 to 63)
- d) The Commercial Investments Indicators and Limits for 2024/25 to 2028/29 contained within Appendix A (paragraphs 64 to 76).

41 **Work Programme**

The Service Manager – Finance advised the Group that the next meeting has been scheduled for Thursday 30 May to be approved at Annual Council on 23 May 2024.

The Group were asked to note that the Code of Conduct and Review of the Council's Constitution may not be considered by Governance Scrutiny Group at its meeting in May.

It was **RESOLVED** that Governance Scrutiny Group approve the work programme as follows:

30 May 2024 (TBC at Annual Council)

- Internal Audit Progress Report Q4
- Internal Audit Annual Report
- Annual Fraud Report
- Annual Governance Statement (AGS)
- Capital and Investment Strategy Monitoring Q4 Outturn
- **Constitution Review**
- **Code of Conduct**
- Work Programme

Actions – 22 February 2024

Min No	Action	Officer Responsible
35	Members of the group requested samples of the types of properties that benefited from the LAD3 grants that were audited	Service Manager – Finance
38	Members asked for the amendment to the wording in the risk relating to affordable housing.	Director – Finance and Corporate Services

The meeting closed at 8.28 pm.

CHAIR

DRAFT



Governance Scrutiny Group

Thursday, 30 May 2024

Internal Audit Progress Report Quarter 4

Report of the Director – Finance and Corporate Services

1. Purpose of report

The attached report has been prepared by the Council's internal auditors BDO and is the fourth report for this financial year. It reflects the progress made against the annual Internal Audit programme, along with any significant recommendations with regard to the audits completed during this period.

2. Recommendation

It is RECOMMENDED that the Governance Scrutiny Group considers the quarter 4 progress report for 2023/24 (Appendix A) prepared by the Council's Internal Auditor.

3. Reasons for Recommendation

To conform to best practice and Public Sector Internal Audit Standards and give assurance to the Governance Scrutiny Group regarding the Council's internal control environment.

4. Supporting Information

4.1. The Internal Audit Plan for 2023/24 was approved by the Governance Scrutiny Group at its meeting on 23 February 2023 and includes ten planned reviews.

4.2. The attached report highlights the completion and issuing of three reports from the 2023/24 Internal Audit Annual Plan. In terms of findings:

- The Fleet Management audit received a moderate rating for Design and a substantial rating for Effectiveness with one medium and one low level recommendation
- The E-Financials Systems Controls audit received a substantial rating for both Design and Effectiveness with three low level recommendations
- The Crematorium audit received a substantial rating for both Design and Effectiveness with two low level recommendations
- No limited assurance reports have been issued
- Management actions have been agreed for all recommendations.
- The Audit Opinion and Fraud Report are covered as a separate item on this agenda

- 4.3. The audit plan has been completed in line with the plan.
- 4.4. The following question may assist the Group in their consideration of the audit plan:
- Is the Group satisfied that there is sufficient assurance given for the audit completed to Q4?

5. Risks and Uncertainties

If recommendations are not acted upon there is a risk internal controls are weakened and the risk materialises.

6. Implications

6.1. Financial Implications

There are no direct financial implications to the report. Indirectly a better internal control environment suggests risk has reduced and can result in a reduced audit workload and therefore cost.

6.2. Legal Implications

The recommendation supports good risk management. There are no direct legal implications identified in this report.

6.3. Equalities Implications

There are no equalities implications identified for this report.

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

There are Section 17 implications identified for this report.

6.5. Biodiversity Net Gain

There are no bio-diversity implications associated with this report.

7. Link to Corporate Priorities

The Environment	There are no links between the recommendations of this report and the Council's Environment priority
Quality of Life	Good health and safety processes and statistics is indicative of a good quality of life.
Efficient Services	Undertaking a programme of internal audit ensures that proper and efficient services are delivered by the Council.
Sustainable Growth	There are no links between the recommendations of this report and the Council's Sustainable Growth priority

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group considers the quarter 4 progress report for 2023/24 (Appendix A) prepared by the Council's Internal Auditor.

For more information contact:	Peter Linfield Director of Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	Internal Audit Plan 2023/24 Governance Scrutiny Group 2 February 2023 Internal Audit Progress Q1 Governance Scrutiny Group 28 September 2023 Internal Audit Progress Q2 Governance Scrutiny Group 23 November 2023 Internal Audit Progress Q3 Governance Scrutiny Group 22 February 2024
List of appendices:	Appendix A - Internal Audit Progress Report – BDO

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INTERNAL AUDIT PROGRESS REPORT

RUSHCLIFFE BOROUGH COUNCIL

2023-24

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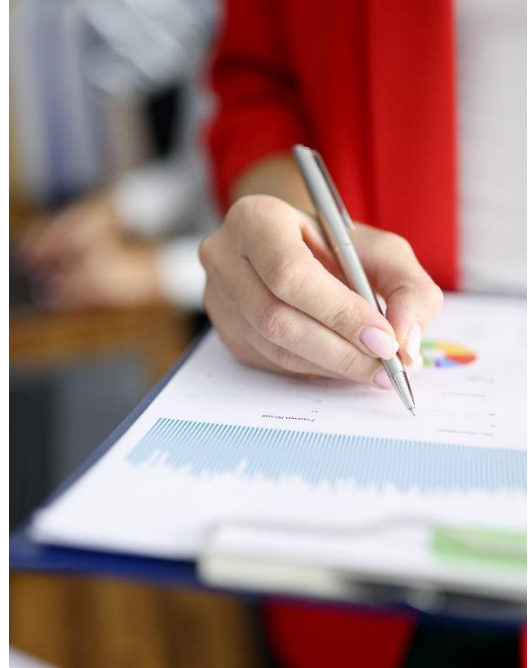
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SUMMARY OF 2023-24 WORK

INTERNAL AUDIT

This report is intended to inform the Governance Scrutiny Group (GSG) of progress made against the 2023-24 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.



INTERNAL AUDIT METHODOLOGY

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report and are based on us giving either 'substantial', 'moderate', 'limited' or 'no'. The four assurance levels are designed to ensure that the opinion given does not gravitate to a 'satisfactory' or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

2023-24 INTERNAL AUDIT PLAN

We are now making good progress in the delivery of the 2023-24 audit plan, and we are pleased to present the following reports to this GSG meeting:

- ▶ Fleet Management
- ▶ Rushcliffe Oaks Crematorium - Income
- ▶ E-Financials System Controls.

This concludes our 2023/24 internal audit plan.

2024-25 INTERNAL AUDIT PLAN

We have completed the Fraud Report - Advisory review which is included in this report. There is a second part to this report, which is an assessment of the Council's Fraud Risk Assessment process. The work for this has concluded however has not been finalised with management. The Fraud Report will be updated with the assessment and brought back to the next GSG.

We have commenced planning for 2024-25 audits, following the approval of the audit plan by the GSG in February 2024, and anticipate presenting the following report at the next GSG meeting:

- ▶ Workforce and Succession Planning
- ▶ Cyber Security.

CHANGES TO THE 2023-24 INTERNAL AUDIT PLAN

There have been no changes to the Internal Audit Plan.

REVIEW OF 2023-24 WORK

AUDIT	AUDIT COMMITTEE	PLANNING	FIELDWORK	REPORTING	DESIGN	EFFECTIVENESS
Country Parks Income	February 2024	✓	✓	✓	M	S
Fleet Management	May 2024	✓	✓	✓	M	S
Fraud Report	June 2023	✓	✓	✓	N/A	N/A
Governance of Partnership Arrangements	February 2024	✓	✓	✓	S	S
Grant Management Controls	February 2024	✓	✓	✓	S	S
E-Financials System Controls	May 2024	✓	✓	✓	S	S
Main Financial Systems	September 2023	✓	✓	✓	S	S
Markets - Income	September 2023	✓	✓	✓	S	S
Reconciliations	November 2023	✓	✓	✓	S	M
Rushcliffe Oaks Crematorium - Income	May 2024	✓	✓	✓	S	S

FLEET MANAGEMENT

CRR REFERENCE: FAILURE TO DELIVER THE CARBON MANAGEMENT PLAN OBJECTIVES

Design Opinion



Moderate

Design Effectiveness



Substantial

Recommendations



SCOPE

BACKGROUND

- ▶ Rushcliffe Borough Council (the Council) maintain a fleet of 50 vehicles, split mainly across the following areas:
 - Light fleet vehicles for the Streetwise service, which was recently brought back in house by the Council and provides waste management services, tree and hedge management (to Council owned trees) and grounds maintenance works.
 - 23 refuse collection vehicles managed by the Recycling 2 Go (R2Go) Team. This is an in-house function responsible for waste, refuse and recycling collection.
 - Light vehicles used for other services, including pest control and country parks management.
- ▶ The Council have declared a climate emergency and have committed to carbon neutrality by 2030 in its Carbon Reduction Action Plan. The Action Plan estimates that 25% of the Council's emissions arise from its fleet vehicles. Where possible, the Council have sought to purchase electric vehicles as part of its vehicle replacement programme. However, as this is not always economically viable or these vehicles do not meet the specifications that the Council require, it uses other means to reduce its emissions from vehicles. For instance, it uses hydrotreated vegetable oil (HVO) for its heavy goods vehicles rather than diesel.
- ▶ The Council have recently commissioned a review by CENEX to assess how it can improve the environmental sustainability of its fleet through the vehicle replacement programme. The Council has a vehicle replacement programme framework with other local authorities in Nottinghamshire and Derbyshire, allowing it to procure new vehicles from providers on the framework.
- ▶ As the Council operate vehicles over 3.5 tonnes, it is required to hold an operator's licence (O-Licence) and meet the statutory maintenance and qualification requirements. Vehicle maintenance of the Council's fleet is delivered by Nottingham City Council.

AREAS REVIEWED

As part of the scope of this audit the following areas were reviewed:

- ▶ The vehicle replacement programme to assess whether new vehicle purchases considered the Council objectives in the Carbon Management Plan.
- ▶ A sample of 10 new vehicles purchased from the framework to assess whether these were procured with due consideration of value for money and environmental factors.
- ▶ Existing arrangements to support the maintenance and repairs of vehicles, including monitoring statutory vehicle checks such as MOTs, vehicle servicing.
- ▶ A sample of five vehicles to assess whether all statutory checks had been completed in line with mandatory timescales, ie MOT. We also assessed whether maintenance checks, ie vehicle servicing, was completed in accordance with the maintenance schedules and that vehicles were taxed appropriately.
- ▶ The Council's vehicle insurance policy to assess whether this provided sufficient coverage of its fleet.

- ▶ A sample of five drivers operating vehicles under the O-Licence, to assess whether sufficient due diligence have been undertaken and verified that these drivers hold a valid licence for the vehicle they operate.
- ▶ Arrangements in place at the Council to comply with the O-Licence conditions, including whether the licence is up to date, drivers operating vehicles under the licence hold appropriate qualifications and vehicles were subject to required maintenance to ensure they are suitable for the roads. We also reviewed whether records on the hours worked by drivers operating the vehicles were retained to demonstrate compliance with safety standards.



AREAS OF STRENGTH

The following areas of good practice were identified:

- ▶ The Council commissioned a review by environmental consultants, CENEX, as a proactive measure to assess the baseline emissions of its current fleet and plan to transform this into a more environmentally-friendly fleet of vehicles. This includes investment in methods such as using alternate vehicle fuels (including hydrotreated vegetable oil (HVO)) and plotting data-backed conversion roadmaps of its vehicles. While the review by CENEX identified that the Council have made limited progress so far to reducing emissions from its fleet (see Finding 2), it has recently applied for £25,000 of grant funding from the Midland Net Zero Hub's Electrification of Council Depots scheme for a feasibility study to install electric vehicle (EV) charging infrastructure at its Bingham depot. Investment in this infrastructure would be critical to achieving an electric fleet.
- ▶ New vehicles were purchased through the Nottinghamshire Officers Transport Framework, which is a collective agreement with other local authorities based in Nottinghamshire. This enables value for money to be obtained through vehicle purchasing as all suppliers on the framework have been through a robust procurement process. The Council recently purchased 10 new vehicles through a direct award, obtaining approval on the Procurement Exemption Form in accordance with the delegated authorities. A business case for the purchase of the vehicles included an outline of the financial benefits, with calculations of alternative costs associated with leasing the vehicles of the useful life of the vehicles. The business case also identified the environmental considerations for purchasing the vehicles, recognising that the Council's EV infrastructure is not yet ready as outlined in the CENEX report. However, it proposes that the vehicles could be converted to use HVO fuels to reduce carbon emissions in the short term, while EV infrastructure can be invested in by then end of these vehicles working lives.
- ▶ There was an efficient and proactive approach to vehicle maintenance using the Fleetwave management system (Fleetwave) to ensure maintenance records were kept up to date. Fleetwave was used to monitor vehicles that are inspected and serviced by Nottingham City Council at the Eastcroft depot, mainly refuse collection vehicles. Other vehicles, serviced and maintained by Trucks and Bus Repairs Ltd, were monitored using a spreadsheet capturing six-weekly maintenance schedules and MOT dates. Maintenance timelines required under the Lifting Operations and Lifting Equipment Regulations 1998 (LOLER) was also recorded on the spreadsheet which is managed by the Fleet and Vehicle Infrastructure Manager. There are formulas embedded in the spreadsheet that automatically notify the Fleet and Vehicle Infrastructure Manager 30 days before the vehicles MOT or service is due. email notifications are also sent from Fleetwave.
- ▶ The Council have a fleet of 50 vehicles. We reviewed five vehicles and verified in all instances that the vehicle MOT, road tax, service inspections and insurance was up-to-date. Of the five vehicles, two were also covered by the LOLER requirements and in both instances the lift equipment was inspected in a timely manner and certificates were retained.
- ▶ The Council have an O-Licence, re-issued to it on 29 September 2023 by the Office of the Traffic Commissioner, for its vehicles in the Eastcroft and Bingham depots. As required by legislation, the Fleet and Vehicle Infrastructure Manager is named on the O-Licence as the transport manager.
- ▶ In accordance with the conditions of the O-Licence, we confirmed:
 - There was proactive vehicle maintenance to ensure vehicles were kept in a roadworthy condition, monitored via Fleetwave and the vehicle maintenance spreadsheet.
 - Driver records were retained for drivers operating under the O-Licence, including evidence of their Certificate of Professional Competence (CPC).
 - Shift logs capturing driving hours and rest periods were retained demonstrating a systematic approach to monitoring and ensuring compliance with driving hour regulations.



AREAS OF CONCERN

Finding	Recommendation and Management Response
The Council do not undertake periodic checks of agency drivers on the DAVIS licence check system and a policy was not in place to formally outline the process for escalating driving licence points with staff (Finding 1 - Medium).	<p>a. Long-term agency drivers should be added to the DAVIS (or to an alternative system/method that detects any driving convictions) and monitored quarterly to confirm that the driver has not had any convictions, licence points or other infractions that could prevent them from operating vehicles.</p> <p>b. A policy or code of conduct should be developed and implemented to outline the responsibilities of drivers in declaring driving convictions and the process for escalating the higher risk drivers. At a minimum it should include the following:</p> <ul style="list-style-type: none"> i. Increasing the DAVIS checks on high-risk drivers to monthly. ii. Requiring the conversation between high-risk drivers and the Fleet and Vehicle Infrastructure Manager to be documented with any actions agreed in the discussion. iii. Conditions where further training or refresher training is required for high-risk drivers. <p><u>Management Response</u></p> <p>The recommendations above are accepted and work will be completed by end May 2024 to ensure agency driver checks are included not just at induction but throughout any longer agency driver employment period. The Fleet and Vehicle Infrastructure Manager will develop a process to ensure that discussions between himself, the driver's managers and the employee (driver) will be documented and followed up in writing.</p> <p>Target date: 31 May 2024</p>
Since declaring a climate emergency in 2019, which recognises that the fleet of vehicles contribute to 25% of the Council's emissions, action has been taken to convert 21 vehicles to HVO fuels (including its refuse vehicles which contribute to 80% of the fleet's carbon emissions) and it has commissioned reviews around the feasibility of electrifying its vehicles. However, further action and monitoring of the transition to zero emission vehicles is required to achieve the target set out in the Climate Change Strategy of net zero emissions by 2030. (Finding 2 - Low).	<p>The Council should consider the operational and financial impact of implemented EV infrastructure and vehicles into its fleet as part of its transition to zero emissions. This should be monitored by the Executive Leadership Team to ensure there is sufficient resources to meet the Council's climate change objectives. While the net zero target for its own operations is for 2030, infrastructure and vehicle replacements will fall prior to this date.</p> <p><u>Management Response</u></p> <p>The recommendation will be reviewed and is covered in the Council-wide Carbon Management Group chaired by a Deputy Chief Executive where fleet and subsequent likely changes is covered as part of the regular agenda items.</p> <p>Target date: Ongoing</p>



CONCLUSION

Overall, the Council have adequate controls in place to manage its fleet, with specific strengths over its vehicle maintenance and statutory check processes and ensuring compliance with the O-Licence. Automatic controls are in place to notify the Fleet and Vehicle Infrastructure Manager when vehicle checks or maintenance are required. Furthermore, we identified that the vehicle maintenance and checks were conducted in a timely manner.






Driver checks are conducted for Council staff using the DAVIS licence management system but were not completed for agency staff. There was also the lack of a formal policy and approach taken with drivers when driver warnings are raised on DAVIS.

While the Council have taken steps to reducing the emissions of its fleet, there is still further action needed to achieve its target of net zero by 2030. It has commissioned a review by external consultants, CENEX, to help create a roadmap to a zero-emission fleet by 2030 and submitted a bid for funding from the Electrification of Council Depots grant. The Council have set an ambitious target of being carbon neutral from its own operations by 2030, from which its vehicle fleet contribute to 25% of emissions.

This leads us to conclude that the control effectiveness is Substantial.

RUSHCLIFFE OAKS CREMATORIUM - INCOME

CRR REFERENCE: ABILITY TO DELIVER RUSHCLIFFE OAKS PROJECT ON TIME AND WITHIN BUDGET

Design Opinion	 Substantial	Design Effectiveness	 Moderate
Recommendations	  		



SCOPE

BACKGROUND

- ▶ On 3 April 2023 Rushcliffe Borough Council (the Council) opened Rushcliffe Oaks Crematorium. The Crematorium is operated and managed by the Council, with the concept of the environment being central to the site. Through the use of innovative technologies and renewable energy sources, the facility is operationally carbon neutral.
- ▶ The Council charges customers for cremation services, memorialisation plots and other fees which include the provision of photography and DVDs of a cremation service and scattering of ashes. The aim of the Crematorium is to provide an important and necessary community facility to residents and also fund the capital and future investment.
- ▶ The Council's direct customer base is mostly funeral directors who are invoiced monthly for services provided. Some of the additional offerings, including photography and DVDs are sold directly to families.
- ▶ The Council's booking system, PlotBox, is used to record the services provided to customers, which the Crematorium Manager uses monthly to send invoices through the E-Financials System. If invoices are not paid in a timely manner, the Finance Team are responsible for debt recovery.
- ▶ In its first year of operation, there were 505 cremations at the Crematorium but it underperformed on its income target by c£300,000. However, this was partly due to optimistic targets established in the business case where original assumptions were distorted by the impact of Covid. It did still generate a small surplus of £23,000. According to the April 2024 Portfolio Holder Report, the Crematorium generated £420,472.

AREAS REVIEWED

The following areas were reviewed as part of this audit:

- ▶ The fees and charges for the range of services provided on the Rushcliffe Oaks Crematorium website to assess whether these were transparently published and charged accurately to customers.
- ▶ Market testing/research conducted before the Crematorium opened to ensure the fees and charges were competitive and in line with the objectives of the Crematorium.
- ▶ A sample of 15 income receipts for the Crematorium to assess whether customers were charged correctly, and payment had been received in a timely manner.
- ▶ A sample of aged debts to ascertain whether appropriate action was taken to recover the amount owed from the debtor.
- ▶ Pre-opening and ongoing marketing events and newsletters to assess whether sufficient promotional and marketing activity took place to increase the publicity of the Rushcliffe Oaks Crematorium, particularly among funeral directors who are the core customers.
- ▶ Performance Clinic Reports and Portfolio Holder Briefings to assess whether there was adequate oversight and scrutiny of income generation and collection performance for the Crematorium.



AREAS OF STRENGTH

We identified the following areas of good practice:

- ▶ The price list for services provided at the Crematorium was publicly advertised on the website. It provided clear information on the funeral services and any additional costs or conditions associated with the fees such as surcharges for use of Ceremony Hall and other media services.
- ▶ Cremation and memorialisation services were split into separate categories and clearly displayed on the Crematorium's website. The price list could also be downloaded into a PDF Form.
- ▶ There was a robust process followed to set the pricing levels for services at the Crematorium, in accordance with its objectives, including benchmarking with other local crematoriums and market testing with funeral directors. The documented comparison of prices for a range of services provided the Council with an indication of charges applied by other local authorities and private providers.
- ▶ A range of marketing events were undertaken to raise publicity of the Rushcliffe Oaks Crematorium before it opened and in its first few months of opening. A report was presented to the Growth and Development Scrutiny Group in July 2023 to review the Crematorium, which summarised some of the marketing events. These include:
 - Two open days were hosted to allow for locals to visit the site and interact with the Rushcliffe Oaks Crematorium Team and local funeral directors. Further open days are planned for 2024.
 - A Christmas Memorial Service was held in December 2023.
 - A quarterly newsletter is issued to all funeral directors and celebrants. These commenced in November 2023, therefore, only two newsletters have been issued so far.
 - Feedback forms are placed around the Crematorium to obtain visitor feedback.
 - Social media posts (on Facebook and Instagram) are published weekly to update the public on the Crematorium's offerings. Local magazines are also used for advertising.
 - As funeral directors are the Crematorium's main customer base, the Crematorium Team have arranged one-to-one meetings and conducted site visits with local funeral directors to maintain positive relationships.
- ▶ We reviewed 15 invoices issued to customers between 3 April and 31 December 2023 and confirmed that in all cases:
 - There was a record of the services provided on PlotBox to support accurate invoicing.
 - Customers were charged the correct amount, based on the pricing information on the website for the services provided.
 - Payments had been received from the customer, albeit for seven of the invoices sent to funeral directors, these were paid late (see Finding 1).
- ▶ There were sufficient debt recovery processes in place for unpaid invoices by funeral directors. At the end of January 2024 there were only five overdue invoices with a combined balance of £9,830. Automatic reminders are sent to the customers 21 days after an invoice is sent to the funeral director (which is the day the invoice becomes overdue). Subsequent reminders are then sent at period intervals if the invoice remains unpaid. The monthly debtor list for the Crematorium is also sent to the Crematorium Manager to review. We reviewed two of the five overdue invoices on 31 January 2024 and noted that reminders had been sent to the debtor, supporting effective recovery activity. One debt had been transferred to a debt enforcement agency.
- ▶ Appropriate key performance indicators (KPIs) for income generation for the Crematorium have been identified and are reported bi-monthly to the Development and Economic Growth Portfolio Clinic and in the Portfolio Holder report. This is supported by narrative explaining variances between the budgeted and actual income. Overall, the Crematorium has underperformed in 2023-24 for income generated however, the performance reports attribute that to the optimistic targets set in the business case.
- ▶ Finance Business Partners monitor the income and expenditure for the Crematorium versus its budget. The financial performance is reported to in the Development and Economic Growth Portfolio Clinic. Furthermore, debtors income overall is reported to the Executive Management Team.
- ▶ The Crematorium Manager reconciles the income reports between PlotBox and the E-Financials System monthly. These are reviewed by the Service Manager - Economic Growth and Property, maintaining a separation of duties.



AREAS OF CONCERN

Finding	Recommendation and Management Response
Across our sample of 10 invoices issued to funeral directors, we identified that these were often paid later than the agreed credit terms, with one invoice paid 140 days late. Albeit, invoices were eventually paid and the Crematorium only had five aged debts at the end of January 2024, which is reasonably low (Finding 1 - Low).	<p>To maintain prompt payments from customers, the Council should consider whether an upfront payment model would be more beneficial. We recognise that there would be other factors in this decision, including the impact that this could have on relationships with funeral directors.</p> <p><u>Management Response</u></p> <p>An upfront payment model is currently rejected but is not ruled out if arrears do become a significant issue for any particular funeral director (on a risk basis). The Council does not recognise this as common practice and is intent on maintaining good relationships with the Funeral Directors. Given there is no 'bad debt' as such we are comfortable with existing controls. If a Funeral Director shows signs of financial stress, as with all debtors they will be dealt with in accordance with the Council's Debt Recovery policy.</p> <p>Target date: Not accepted - based on the fact that debt is currently low for the crematorium but will be considered on a case-by-case basis if a Funeral Director shows signs of financial stress.</p>
Income collection performance for the Crematorium was not reported on Pentana or to the Development and Economic Growth Portfolio Clinic. There was reasonable reporting on the number of cremations and overall revenue generated, but timely income collected was identified as an area for improvement in Finding 1 (Finding 2 - Low).	<p>The Council should add a new KPI onto Pentana for 'the percentage of invoices paid on time by funeral directors'. This should be included in the Service Plan performance indicators.</p> <p><u>Management Response</u></p> <p>Agreed and will be implemented in line with the recommendations.</p> <p>Target date: 30 June 2024</p>



CONCLUSION

We conclude that the Council has a Substantial design of controls and effectiveness of controls for income charging at its Rushcliffe Oaks Crematorium.

Our review focused on controls and processes for transparently communicating prices of services, income charging, marketing and engagement and performance reporting. The purpose of this review was not to assess the performance of the Crematorium since it opened on 3 April 2023.

Control Design

The control design was Substantial because there was a sound system of internal control designed to achieve system objectives. While the Crematorium has underperformed in its first year against its original business case, there were robust processes in place to communicate with customers (both funeral directors and the public) through open days, direct communication and through other promotional activities.

Furthermore, the pricing for the range of services provided at the Crematorium were transparently published on the website. Before the Crematorium opened, the Council benchmarked prices of other local crematoriums to set competitive prices aligned to the Crematorium's objectives.

Control Effectiveness






The control effectiveness was Substantial because the controls that are in place were consistently applied, specifically the accurate charging of services using the PlotBox System. There were also sufficient arrangements in place to reconcile the income recorded on the PlotBox System and the E-Financials System to confirm that customers were charged correctly.

There could be further improvements around the timeliness of payment collection from funeral directors, and this could be included as a KPI on Pentana to promote greater oversight.

However, overall, controls were generally robust and followed appropriately.

E-FINANCIALS SYSTEM CONTROLS

CRR REFERENCE: LONG-TERM LOSS / FAILURE OF MAIN ICT SYSTEMS

Design Opinion	 Substantial	Design Effectiveness	 Substantial
Recommendations	  		



SCOPE

BACKGROUND

E-Financials is the financial management system used by the Council. We

AREAS REVIEWED

This audit focused on the controls in place for the E-Financials system at the Council. This involved reviewing the procedures that are in place for the E-Financials system, including the user administration process with a particular focus on those who have left the Council but were found to have an E-Financials account.

We examined whether:

- ▶ There are inadequate controls in place to limit super user or privileged access to E-Financials to appropriate staff, leading to unrestricted access to the system.
- ▶ Amendments to bank details are not reviewed in a frequent or timely manner, resulting in inappropriate or fraudulent changes.
- ▶ Appropriate controls are in place around the amendment of bank details in the system.
- ▶ There is no or limited effective process in place for ensuring that all active finance system accounts relate to current employees and that accounts are closed when staff leave.
- ▶ There are inadequate processes in place to change user access in a timely manner, leading to inappropriate access being provided to staff.
- ▶ Debts can be written off without appropriate authorisation or separation of duties, resulting in inappropriate debt write-offs.



AREAS OF STRENGTH

During our review, we identified the following areas of good practice:

Access to the E-Financials system is restricted to two specific user roles, Requisitioner and Approver. Approvers have appropriate set approval limits in place while Requisitioners are users responsible for raising sundry debtors or invoices or purchase orders before being passed to Approvers. Users cannot have both roles, aside from the Systems and Performance Officer who has both privileged access and an approval limit, for legitimate reasons. There is one exception to this was for one staff member (KB) account who had both roles when trialling to become a Senior Business Partner. This was picked up through an external audit and the unnecessary access was revoked. We have verified this through viewing her menu access to confirm that KB cannot raise purchase orders.

We have verified that no other users have both access rights bar the Systems and Performance Officer.

When users of the system leave the Council, their user role is changed to that of "Leaver" which removes their entire access to the system, although they still appear as a visible user (albeit not one with any allocated user roles). This is to ensure that any outstanding purchase orders that may be allocated to a particular user are able to be processed. Leavers are identified by the Finance team through a specific payroll diary which records all user activities such as new starters, leavers and new staff posts and increments.

We looked at the full list of leavers in the E-Financials system and compared this with the active user listing. Only one user was found to still be visible as an active user despite appearing in the leaver list, however this was due to having been made a leaver in casual post whilst still retaining a full-time post. The leaver post related to the role of Casual Events Assistant (working at event such as Lark in the park, Christmas light switch on etc) and they would not have had E-Financials access in relation to this role. As a result, this is an appropriate amendment and no issue has been identified with this user change.

Similarly, when a user has their roles amended, they are picked up in the increment list in the payroll diary by the finance team. If users need to have their level of approval changed, it must be authorised before the increment can be processed. We tested the three users on the increment list. None of these users were requiring access amendments which would need to be amended within the E-Financials system.

Write-offs within the E-Financials system follow a set process. They require segregation of duties by having a second person to confirm the write-off before they can be actioned, with any write-offs that are £10 or less have to be written off by another technician and any over £5,000 going to the Director of Finance & Corporate services. Write-offs cannot be actioned unless there is a counter-signature, even for debt write-offs that are £10 or less thus ensuring that there is dual control towards write-offs.





AREAS OF CONCERN

We found that:

Finding	Recommendation and Management Response
The one privileged user account with an approval limit (ie. has dual access) belonging to the Systems and Performance Officer for Finance is not regularly checked to determine whether any approvals of their own requisitions have been conducted. We confirmed however there had been no adverse activity by the user during the year (Finding 1 - Low).	<p><u>Recommendation:</u> Management should run a quarterly report to check what approvals have been conducted by the Systems and Performance Officer for Finance. This should be reviewed by the Service Manager Financial Services.</p> <p><u>Management Response:</u> Agreed-Report set up during the audit testing process and so in place ready to start at the end of qtr1 2024-25.</p> <p><u>Target Date:</u> 31/07/2024</p>
Changes to customer data within the E-Financials system are not subject to a system report of amendments, although any amendments are required to be confirmed by a second member of staff and manual monthly checks of amendments are performed (Finding 2 - Low).	<p><u>Recommendation:</u> Management should conduct a monthly check of all changes relating to changes in customer bank details on the E-Financials system, focussing on those which have been amended. Should this not be possible, a quarterly check should be conducted to identify any irregular changes to customer details.</p> <p><u>Management Response:</u> Agreed that whilst we do currently double check those changes saved within the new supplier/customer amendments folder that we will also run the full audit report relating to bank detail changes for suppliers at least quarterly.</p> <p><u>Target Date:</u> 31/07/2024</p>
Although a user access review is required to be conducted on an annual basis to confirm approval limits, this has not been conducted yet for the 2023/24 financial year. A review had been conducted for 2022/23/ (Finding 3 - Low).	<p><u>Recommendation:</u> For approvers within E-Financials, management should conduct a review of user access and confirm that the approval limits set for each Approver user are appropriate. This review should be conducted on an annual basis.</p> <p><u>Management Response:</u> Agreed that we did not carry this out during 2023-24 due to the previous year having had structure and contract value authority changes which led to the signatories list having been reviewed and completed in March 2023.</p>

		<u>Target Date:</u> 31/07/2024

 ADDED VALUE	<ul style="list-style-type: none">▶ Use of an IT specialist to perform this work.
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 CONCLUSION	<p>We conclude that the Council has a Substantial design of controls and effectiveness of controls for the E-Financials System Controls.</p> <p>Our review focused on controls and processes for applying and monitoring user access and changes within the system, including the management of leavers, and the write-off process.</p> <p><u>Control Design</u></p> <p>We have concluded substantial assurance over the design of the controls as there is generally a sound system of internal control designed to achieve system objectives, with a low-level exception relating to a lack of scrutiny of the one privileged account which has an authorisation limit.</p> <p><u>Control Effectiveness</u></p> <p>We have concluded substantial assurance over the effectiveness of the controls as we raised only low findings, relating to the lack of review of activity on the dual access role and customer changes during the financial year.</p>
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SECTOR UPDATE

Our monthly Local Government briefing summarises recent publications and emerging issues relevant to local authorities that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers, non-executive directors and governors.

ARE WE IN THE AGE OF THE LATCO?

NORSE GROUP CHIEF EXECUTIVE JUSTIN GALLIFORD BELIEVES THAT A TRADING COMPANY OFFERS THE BEST OF ALL WORLDS.

Almost one in five council leaders and chief executives in England surveyed by the Local Government Association think that across the country, councils are struggling to maintain services in the face of relentless cost increases, skills shortages and rising demand on services. There have been several reports in the media about the financial pressures faced by local authorities and it seems to me that a lack of certainty in an election year only adds to the challenge.

It is perhaps no surprise that there is increasing interest in local authority trading companies. They can give councils all the benefits of insourcing: control over services; direct employment of staff, in a more commercial environment; and they are popular - poll after poll has shown that residents prefer frontline services to be provided by their council rather than the private sector.

Crucially, and unlike a traditional direct labour organisation, they also offer the opportunity to create a more commercial culture, with greater operational efficiency and the ability to trade externally and develop revenue streams. Profits are returned to council coffers rather than private shareholders, helping to close the funding gap and protect public services.

At a time of great uncertainty over the funding of services, perhaps the greatest benefit is the flexibility to bring in changes - such as reducing waste collection frequencies - without the need to renegotiate contracts, and without the penalty of variation charges. As new regulations come in, which will require changes to vehicles and service configuration, and with continuing pressure to achieve net zero, this ability to re-engineer and innovate will become even more important.

<https://www.publicfinance.co.uk/sponsored-articles/2024/03/are-we-age-latco>

FOR INFORMATION

For the Governance Scrutiny Group Members and Executive Directors

OFLOG CAN ACT AS 'BIG BROTHER' TO PEER CHALLENGE

OFLOG COULD 'STEP IN' WHEN LOCAL AUTHORITIES DO NOT ADHERE TO THE RECOMMENDATIONS OF THE LOCAL GOVERNMENT PEER CHALLENGE

The Office for Local Government (Oflog) could "step in" when councils do not adhere to corporate peer challenge recommendations, the chair of the Local Government Association's (LGA) innovation and improvement board has said.

The LGA's peer challenge involves a team of senior local government councillors and officers undertaking a review of key finance, performance and governance information. A report outlining key findings and recommendations is shared with the council, which it is required to publish alongside an action plan. However, the LGA cannot enforce any recommendations.

The LGA noted that 'most of the time' councils act on the advice received through the peer challenge but where authorities do not accept the recommendations, the LGA lack the ability to 'make people do things they do not want to do'.

The Chair of the District Councils' Network's Executive Group supported the proposal, saying, "There is absolutely a space for Oflog in terms of that coercive nature of [saying] if you don't sort it out constructively, we'll bring our big brother into the ring, who might just help persuade you because they've got a regulatory function".

Oflog can act as 'big brother' to peer challenge | Local Government Chronicle (LGC) ([lgcplus.com](https://www.lgcplus.com))

FOR INFORMATION

For the Governance Scrutiny Group Members and Executive Directors

LEVELLING UP PROJECTS SEE 'ASTONISHING' DELAYS

PROJECTS PAID FOR THROUGH LEVELLING UP FUNDING POTS HAVE FACED HUGE DELAYS AND THE GOVERNMENT DOES NOT PLAN TO EVALUATE THEIR LONG-TERM SUCCESS, DESPITE THE FACT IT WAS SUPPOSED TO BE A FLAGSHIP POLICY, MPS HAVE SAID.

The Public Accounts Committee found that, as of December 2023, only £3.7bn of the £10.5bn supposed to be spent by 2025-26 had been given to councils and less than half of this (£1.2bn) had actually been spent. The Department for Levelling Up, Housing and Communities told the committee that delays have arisen because of Covid-19 disruptions and higher-than-expected inflation.

However, the committee said potentially more impactful projects lost out to 'shovel-ready' alternatives - and even these have not been delivered. "The levels of delay that our report finds in one of [the] government's flagship policy platforms is absolutely astonishing," said PAC chair Dame Meg Hillier. "The vast majority of levelling up projects that were successful in early rounds of funding are now being delivered late, with further delays likely baked in. DLUHC appears to have been blinded by optimism in funding projects that were clearly anything but 'shovel-ready', at the expense of projects that could have made a real difference".





The committee also expressed concern over transparency, with rules changing while bids were being assessed (changes that councils were not told about in advance), meaning 55 councils wasted much-needed public resources on making bids that stood no chance of winning funding in that round. In its report, the PAC said DLUHC is "playing catch up" in its evaluation efforts, and MPs said they are worried that the evaluation will not cover the long term.

<https://www.publicfinance.co.uk/news/2024/03/levelling-projects-see-astonishing-delays>

FOR INFORMATION





For the Governance Scrutiny Group Members and Executive Directors

KEY PERFORMANCE INDICATORS




QUALITY ASSURANCE	KPI	RAG RATING
The auditor attends the necessary, meetings as agreed between the parties at the start of the contract	All meetings attended including Governance Scrutiny Group meetings, pre-meetings, individual audit meetings and contract reviews have been attended by either the Partner or Audit Manager. Additionally scoping and closing meetings were attended by the Audit Manager.	
Positive result from any external review	Following an External Quality Assessment by the Institute of Internal Auditors in May 2021, BDO were found to 'generally conform' (the highest rating) to the International Professional Practice Framework and Public Sector Internal Audit Standards.	
Quality of Work	We have received four survey responses for audits completed in 2023-24 with an average score of 4.5/5 for the overall audit experience. We also received an average score of 4.5/5 for the added value from our reports and the constructiveness of our recommendations. We continue to send out feedback surveys when issuing our final reports.	
Completion of audit plan	We have completed the full audit plan for 2023-24 plus advisory work on the Fraud Report. We were flexible throughout the year, using contingency days to complete a review of Grant Management Controls at short notice to provide assurance to the Director of Finance and Corporate Resources over controls in place to administer the LAD3 grants ahead of their submission to the Midlands Net Zero Hub in December 2023.	

APPENDIX 1

OPINION SIGNIFICANCE DEFINITION

LEVEL OF ASSURANCE	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION	FINDINGS FROM REVIEW
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE DEFINITION

RECOMMENDATION SIGNIFICANCE	
High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:

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Governance Scrutiny Group

Thursday, 30 May 2024

Internal Audit Annual Report 2023/24

Report of the Director – Finance and Corporate Services

1. Purpose of report

- 1.1. The attached report has been prepared by the Council's internal auditors BDO. It summarises the work undertaken during the course of 2023/24 and the management actions arising from the audits. It also provides the annual opinion of the Head of Internal Audit required by the Public Sector Internal Audit Standards.

2. Recommendation

It is RECOMMENDED that the Governance Scrutiny Group notes Internal Audit's Annual Report in relation to 2023/24 (**Appendix A**).

3. Reasons for Recommendation

- 3.1. To conform with best practice and Public Sector Internal Audit Standards; and give assurance to the Governance Scrutiny Group regarding the Council's internal control environment.

4. Supporting Information

- 4.1. The appended BDO report highlights the completion of the Internal Audit Plan for 2023/24 with all planned audits completed. In accordance with the Public Sector Internal Audit Standards, the Head of Internal Audit, BDO, is required to provide an annual opinion. The Group is asked to note that for 2023/24 the Head of Internal Audit BDO has concluded that the Council had a sound system of internal control, that controls were regularly applied and has reached an overall opinion of substantial assurance which is the highest level of assurance that can be awarded. It is the third consecutive year that the Council has received a substantial opinion and it should be noted that it is a significant achievement to maintain this level of assurance.
- 4.2. In 2023/24, BDO undertook ten internal audit reviews. As reported previously in the quarterly progress reports, of the ten audits completed:
 - Six received substantial assurance on both design and effectiveness – Governance of Partnerships, Grant Management Controls, Main Financial Systems, Financials system control, Rushcliffe Oaks and Markets Income.

- One received substantial assurance on design effectiveness only and moderate for effectiveness– Reconciliations
 - Two received substantial assurance on effectiveness only and moderate assurance on design – Country Parks Income and Fleet Management
 - The Annual Fraud report is not classified in the same way
 - There were no reports issued with limited assurance.
- 4.3. BDO have issued no high findings and a total of 3 medium recommendations, reflecting limited control weaknesses and this has remained stable to the previous year, demonstrating the Council's positive culture for maintaining effective controls. Management actions have been agreed in all cases and recommendations have been implemented in a timely manner throughout 2023/24.

5. Risks and Uncertainties

If recommendations are not acted upon there is a risk internal controls are weakened and the risk materialises.

6. Implications

6.1. Financial Implications

There are no direct financial implications to the report. Indirectly a better internal control environment suggests risk has reduced and can result in a reduced audit workload and therefore cost.

6.2. Legal Implications

There are no legal implications arising from this report.

6.3. Equalities Implications

There are no equalities implications arising from this report.

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

There are no Section 17 implications arising from this report.

6.5. Biodiversity Net Gain

There are no Biodiversity Net Gain implications arising from this report.

7. Link to Corporate Priorities

Quality of Life	There are no links to the Council's Quality of Life priority
Efficient Services	Undertaking a programme of internal audit ensures that proper and efficient services are delivered by the Council.
Sustainable Growth	There are no links to the Council's Sustainable Development priority
The Environment	There are no links to the Council's Environment priority

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group notes Internal Audit's Annual Report in relation to 2023/24 (**Appendix A**).

For more information contact:	Peter Linfield Director of Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None.
List of appendices:	Appendix A – Internal Audit Annual Report 2023/24

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INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

RUSHCLIFFE BOROUGH COUNCIL

2023-24

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SUMMARY OF 2023-24 WORK

This report summarises our work for Rushcliffe Borough Council (the Council) as part of the delivery of the 2023-24 Internal Audit Plan, with an overview of the effectiveness of the controls in place across the areas covered. The following reports have been issued for this financial year:

- ▶ Country Parks Income
- ▶ Fleet Management
- ▶ Fraud Report
- ▶ Governance of Partnerships Arrangements
- ▶ Grant Management Controls
- ▶ Main Financial Systems
- ▶ Markets - Income
- ▶ Reconciliations
- ▶ Rushcliffe Oaks - Crematorium Income
- ▶ E-Financials System Controls.

We have detailed the opinions of each report and key findings on pages five to 10. Our internal audit work for the period from April 2023 to March 2024 was carried out in accordance with the internal audit plan approved by management and the Governance Scrutiny Group (GSG). The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and other key operational and strategic systems. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to Full Council, through the GSG, on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our Annual Report provides our overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period. The basis for forming our opinion is as follows:

- ▶ We have reached an overall opinion of Substantial assurance, which is the highest level of assurance that we can provide. This is consistent with the opinion provided in 2022-23. Across all ten of the reviews we completed (excluding the Fraud Report as this was an advisory review) we provided Substantial assurance over the control design, the control effectiveness, or both. The Council had a sound system of internal control and controls were regularly applied.
- ▶ We have issued three Medium recommendations to date in 2023-24 and no High findings, reflecting limited control weaknesses in controls. This remained stable to the previous year, demonstrating the Council's positive culture for maintaining effective controls.
- ▶ Recommendations have been implemented in a timely manner. All reconciliations for 2022-23 have been fully implemented and 2023-24 recommendations that have fallen due have been completed. To support an ongoing process of implementing controls, we directly update the

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follow up tracker on a Council-managed Teams drive so that updates on the implementation of recommendations can be provided with supporting evidence throughout the year.

- ▶ The Council was subject to the Local Government Association's peer review challenge in January 2024 which identified that the Executive Management Team (EMT) was strong, supportive and approachable. The report, presented to Cabinet on 17 April 2024, highlighted the positive collaboration that the Council has with other partners in the sector to deliver its objectives and the strong governance and culture from the leadership. An action plan has been developed for how the Council will respond to each recommendation in the report, demonstrating a good culture for improvement.
- ▶ An unqualified opinion was provided by External Audit for the accounts to the year-ended 31 March 2023. This is a significant challenge across the local government sector, with many councils' accounts having not been audited since 2021-22 or before. This supports our view on the overall control environment, specifically around financial management. We conducted a review on Main Financial Systems and on access controls to the E-Financials System where we provided Substantial assurance over the design and effectiveness of controls.

REVIEW OF 2023-24 WORK

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Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Conclusion and Summary of Key Findings
	H	M	L	Design	Operational Effectiveness	
Country Parks Income	-	1	2	Moderate	Substantial	<p><u>Conclusion</u></p> <p>We provided Moderate assurance over the management of income (including cash) from Rushcliffe Country Park. There were gaps identified in the control design, particularly the lack of a separation of duties in the cash counting process and receipts not being provided for each booking on the ranger-led activities. While no issues were identified around misappropriation of cash, these control gaps could leave the Council more vulnerable to theft or loss of cash being undetected. Albeit, the values of cash and cheques collected at the Country Park was relatively low (£6,494 between April and November 2023) and we noted through our follow up process that a separation of duties has now been implemented and is documented. Appropriate security arrangements were in place at the Country Park for storing cash before it was banked.</p> <p>Non-cash transactions for the concession contracts for rent of the café, hot food and ice creams at the Rushcliffe Country Park (for £48,390 per annum) was charged correctly and paid in a timely manner. This was also the case for car park income collected from Broxtowe Borough Council.</p> <p><u>Findings</u></p> <ul style="list-style-type: none"> ▶ Cash was only counted and transported to the Rushcliffe Arena by one officer which could leave the Council more vulnerable to theft or loss of cash. Although, no instances were identified during our review. ▶ Receipts were not provided to customers for ranger-led activities and therefore there was not a clear audit trail for the amount of income received from these activities. ▶ The cash taking procedure note did not contain robust details on the process for banking cash, potentially leading to inconsistencies in the process if it were to be administered by different officers.
Fleet Management	-	1	1	Moderate	Substantial	<p><u>Conclusion</u></p>

						<p>We conclude that the Council have a Moderate design of controls and Substantial effectiveness of controls for Fleet Management.</p> <p>This covered its compliance with statutory vehicle maintenance and servicing and the transition to a zero-carbon emission fleet.</p> <p>The Moderate opinion on the control design was drive by the Medium finding for the completion of driver checks for agency drivers and the gap in a policy for formal escalation for drivers that receive points on their licence. Drivers employed directly by the Council were subject to quarterly checks on DAVIS, which mitigates the risk around ineligible drivers operating the Council's vehicles. Furthermore, there were adequate controls to monitor and ensure that vehicles had statutory maintenance and service checks and to maintain compliance with the O-Licence, to operate heavy vehicles.</p> <p>The fleet of vehicles contributes to 25% of the Council's carbon emissions. Therefore, as part of the Carbon Reduction Action Plan, it has set a target of net-zero emissions from its vehicles. Progress has been made towards this target, through feasibility studies into transitioning the fleet to hydro-vegetated oil (HVO) fuels or electrifying the fleet. However, due to the size of the Borough and current market supply of electric 32-tonne refuse vehicles, this could lead to operational challenges if the Council purchased these. Our review did recognise the positive work taken so far towards meeting the climate objectives.</p> <p><u>Findings</u></p> <ul style="list-style-type: none"> ▶ The Council did not undertake periodic checks of agency drivers on the DAVIS Licence Check System (or through an alternative method) and a policy was not in place to formally outline the process for escalating driving licence points with staff. ▶ Since declaring a climate emergency in 2019, which recognises that the fleet of vehicles contribute to 25% of the Council's emissions, action has been taken to convert 21 vehicles to HVO fuels (including its refuse vehicles which contribute to 80% of the fleet's carbon emissions) and it has commissioned reviews around the feasibility of electrifying its vehicles. However, further action and monitoring of the transition to zero emission vehicles is required to achieve the target set out in the Climate Change Strategy of net zero emissions by 2030.
Governance of Partnerships Arrangements	-	-	1	Substantial	Substantial	<p>As part of this audit, we reviewed the following partnerships: the East Midlands Building Consultancy (EMBC), South Nottinghamshire Community Safety Partnership (SNCSPP), South Notts Place-Based Partnership (SNPBP) and the Joint Waste Management Committee. Our review assessed the Council's governance arrangements for these partnerships.</p> <p><u>Conclusion</u></p>

						<p>We concluded that the Council had a Substantial design and effectiveness of controls for its management and governance of these partnerships. There were strong levels of senior buy-in, with meetings attended by Portfolio Holders, Directors and/or Service Managers, demonstrating a robust approach to commitment and cooperation with partners on shared priorities. Furthermore, the partnership meetings were regular with good participation from the Council on strategic and operational matters.</p> <p>Each partnership had a clear and concise remit which, except for the SNCSP, had been approved by all partners. The EMBC followed a more formal approach with a signed partnership agreement, as each party had formal obligations, whereas the other partnerships were more focused on cooperation for shared outcomes.</p> <p><u>Findings</u></p> <ul style="list-style-type: none"> ▶ The terms of reference for the SNCSP had not been formally approved by all partners, providing a lack of clarity over each partner's understanding and commitment to the agreed roles and responsibilities, and desired outcomes of the partnership.
Fraud Report				Advisory Report		No instances or allegations of fraud were identified in 2022-23.
Grant Management Controls	-	-	2	Substantial	Substantial	<p>We provided assurance over the controls in place to support the management of the grant, tested by a walkthrough of processes and a review of a sample of claims for the LAD3 grant. Our role was not to provide assurance over the accuracy of claims and compliance with the LAD3 grant conditions.</p> <p><u>Conclusion</u></p> <p>We concluded that there was a Substantial design and effectiveness of controls for the LAD3 grant management. Our walkthrough of grant management and administration processes identified that there was a sound system of internal control designed to ensure that grants were provided to eligible properties and that appropriate assessments were undertaken by qualified assessors.</p> <p>This was supported by the effective use of the Perci System which allowed the Council to maintain effective oversight of the progress of projects. Critically, our sample testing of properties in receipt of grant funding found that in all instances a PAS Assessment Report had been undertaken in advance of the work and the property had been issued a new EPC certificate rating post-completion of the work. Additionally, applications to the scheme were evaluated by representatives from E.ON, the Nottingham Energy Partnership and the Council to ensure that funds were allocated to eligible properties with lower energy ratings. All properties from our sample test had an EPC D or EPC E rating before the upgrades were done.</p>

						<p>There were some issues identified from our review, notably that a purchase order had not been raised following the allocation of additional funding from the Midlands Net Zero Hub to the Council. This resulted in the final invoice of £424,493 having not been paid to E.ON at the date of our fieldwork (8 December 2023). There were also limited fraud prevention controls in place at the start of the scheme, which may have contributed to a potential fraud incident whereby a subcontractor requested and received payment from an occupier directly, in addition to funding through the grant.</p> <p><u>Findings</u></p> <ul style="list-style-type: none"> ▶ Preventative fraud measures were not in place to mitigate the risk of subcontractors charging occupiers despite them being in receipt of the grant. This happened in one instance and was only detected due to the occupier reporting the incident to E.ON. ▶ There was an outstanding payment for LAD3/HUG1 grant work to E.ON for £424,493 due to the final invoice exceeding the original purchase order. Subsequent purchase orders did not appear to have been raised for additional grant funding provided to the Council.
Main Financial Systems	-	-	1	Substantial	Substantial	<p>Main financial systems are a cyclical audit and therefore, we agree with the Director of Finance and Corporate Resources and the Service Manager - Finance the area of focus each year. This year the focus of the review was on the Council's treasury management arrangements, including compliance with statutory requirements.</p> <p><u>Conclusion</u></p> <p>We provided the Council with Substantial assurance for the design and effectiveness of controls in place to support the management of its treasury function, underpinned by robust reporting on the performance and position of its investments. The Council had been reporting its treasury management activity quarterly to the Governance Scrutiny Group since 2022-23, despite the Prudential Code only mandating this frequency of reporting from April 2023, reflecting the transparent approach. The Council did not have any borrowings at the time of our review as its capital investment programme was funded from its cash reserves.</p> <p>Across its treasury processes, whether it be daily investments or reconciliations, a separation of duties was embedded; albeit records were not retained for the approval of reconciliations. The investment appraisal process was more mature than other local authorities, with formulas built into the investment cashflow spreadsheet to identify which funds provide higher returns and whether investments would be within the counterparty limits.</p> <p>Similarly, there was robust oversight of treasury risks, through the Treasury Group and the Governance Scrutiny Group.</p>

						<u>Findings</u> <ul style="list-style-type: none"> ▶ Evidence for the review and approval of the reconciliations between the investment cashflows spreadsheet, counterparty bank statements and the E-Financials System were not retained and accessible during our review. We were informed that these were usually held in Microsoft Teams chats between the preparer and the reviewer.
Markets - Income	-	-	1	Substantial	Substantial	<u>Conclusion</u> <p>We concluded that the Council had a Substantial design and effectiveness of controls to manage its market income, with a focus on the Bingham Market. Rural Retailers manage the weekly market days, including collecting and banking cash from stall holders for the spots. Other income was charged accurately and collected promptly for licence agreements for cafés and ice cream vans at the markets.</p> <p>Roles and responsibilities for collecting and banking cash were well understood, with proportionate security and checking arrangements based on the amount of cash collected, in accordance with the Council's insurance requirements. Furthermore, we observed the cash collection at Bingham Market on 10 August 2023 and noted that these processes were followed. There was one low significance finding raised over the unexplained overpayment variances on two occasions at the market. However, these exceptions were low value.</p> <u>Findings</u> <ul style="list-style-type: none"> ▶ Records of cash collected from market traders did not agree to the banking receipts in two instances (£7 and £9 overpayments). Furthermore, cash was not provided to the Markets Manager in envelopes leading to challenges in tracing who the receipts relate to.
Reconciliations	-	1	2	Substantial	Moderate	<u>Conclusion</u> <p>We provided Substantial assurance over the design of controls and Moderate assurance over the effectiveness of controls for the Council's management of reconciliations between the E-Financials System and third-party systems, and the reconciliation of control accounts.</p> <p>We raised a Medium finding for the timing of the reconciliations which were often performed in three to five-monthly blocks rather than monthly, leading to delays in the potential detection and addressing of errors.</p> <p>Each reconciliation was supported by a reconciliation procedure note to explain the process. Reconciliations were the responsibility of the System Owner, with support from Finance Business Partners as part of the monthly closedown process. However, reliance was often placed on the Finance Business Partners resulting in a lack of evidence a</p>

						<p>separation of duties between the preparer and approver of the reconciliations. Although we were informed that these were generally applied.</p> <p><u>Findings</u></p> <ul style="list-style-type: none"> ▶ Most of the third-party system reconciliations were not performed monthly by the System Owner. Rather, they were prepared in blocks of three to five months which could lead to delays in identifying and addressing variances. ▶ Variances on the licensing system reconciliations (between Uniform and E-Financials) were not investigated as they were considered immaterial. While this is reasonable, the Council had not defined 'immaterial' in terms of the value of variances and not reconciling immaterial variances could lead to a failure to identify reporting errors or fraud. ▶ There was a lack of evidence retained for a separation of duties between the officers preparing and reviewing the reconciliations.
Rushcliffe - Oaks Crematorium Income	-	-	2	Substantial	Substantial	<p><u>Conclusion</u></p> <p>We provided Substantial assurance over both the design and effectiveness of controls. While the Crematorium has not achieved its financial objectives for 2023-24, this was due to overestimates in the initial income in the business case (due to original assumptions being distorted by the impact of Covid).</p> <p>The processes in place to accurately charge, and collect income from customers were adequate, as confirmed by our sample testing of invoices issued to customers. There were also appropriate debt recovery activities in place for overdue invoices, leading to low levels of overdue debts. The Council has also conducted a range of marketing activities to promote the Crematorium before and since it opened in April 2023.</p> <p>Adequate processes were in place to reconcile income received on the PlotBox System and the E-Financials System, to confirm the accuracy of income received.</p> <p><u>Findings</u></p> <ul style="list-style-type: none"> ▶ Across our sample of 10 invoices issued to funeral directors, we identified that these were often paid later than the agreed credit terms, with one invoice paid 140 days late. Albeit, invoices were eventually paid and the Crematorium only had five aged debts at the end of January 2024, which is reasonably low. ▶ Income collection performance for the Crematorium was not reported on Pentana or to the Development and Economic Growth Portfolio Clinic.

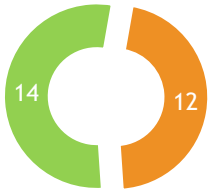
E-Financials System Controls	-	-	3	Substantial	Substantial	<p><u>Conclusion</u></p> <p>We provided Substantial assurance for both the design and effectiveness of controls. We have raised three low priority recommendations to improve the Council's arrangements for the E-Financials system.</p> <p>We have concluded substantial assurance over the design of the controls as there is generally a sound system of internal control designed to achieve system objectives, with some exceptions. These relate to the lack of scrutiny of the one privileged account which has an authorisation limit.</p> <p>We have concluded substantial assurance over the effectiveness of the controls as a small number of exceptions were identified during the review. These relate to the lack of review of activity on the dual access role and customer changes during the financial year.</p> <p><u>Findings</u></p> <p>During our review, the following areas of improvement were identified:</p> <ul style="list-style-type: none"> ▶ The one privileged user account with an approval limit (ie. has dual access) belonging to the Systems and Performance Officer for Finance is not regularly checked to determine whether any approvals of their own requisitions have been conducted. We confirmed however that there had been no adverse activity during the year by the user (Finding 1 - Low). ▶ Changes to customer data within the E-Financials system are not subject a systems report of amendments, although any amendments are required to be confirmed by a second member of staff and manual monthly checks on amendments are performed (Finding 2 - Low). ▶ Although a user access review is required to be conducted on an annual basis to confirm approval limits, this has not been conducted yet for the 2023/24 financial year (Finding 3 - Low).
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SUMMARY OF FINDINGS

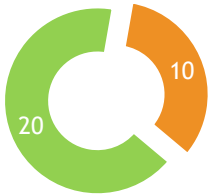
RECOMMENDATIONS AND ASSURANCE DASHBOARD

Recommendations

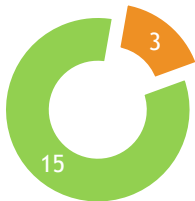
2021/22



2022/23



2023/24



■ High ■ Medium ■ Low

In 2023/24 there were three medium level and 15 low level recommendations made.

This is a decrease in both the number of medium and low level recommendations from the prior year.

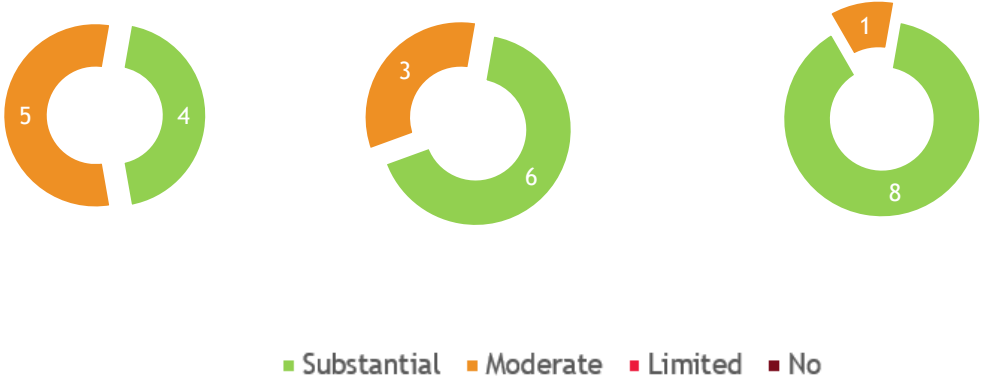
Control Design



In 2023/24 there were six reports issued with substantial assurance and two reports issued with moderate assurance over design of controls.

This is a similar performance to the prior year, with a slight decrease in the number of moderate assurance opinions provided.

Operational Effectiveness



In 2023/24 there were seven reports with substantial assurance over the operational effectiveness of controls and one report with a moderate

This is a decrease in the amount of moderate assurance opinions on operational effectiveness given as compared with the prior year.

ADDED VALUE



USE OF SPECIALISTS

We used fraud specialists and carried out work on the Annual Fraud Report. Additionally, specialist IT staff were deployed for the E-Financials System review.



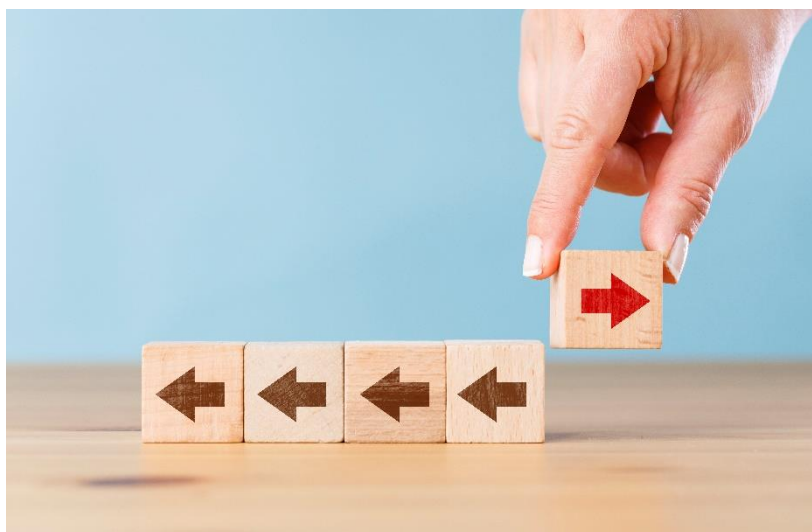
FLEXIBILITY

We applied flexibility throughout the delivery of our Internal Audit Plan. For instance, we were requested to deliver the Grant Management Controls review within two weeks to provide assurance over the controls before the Council submitted its return to the Midlands Net Zero Hub for the management of its LAD3 grant.



SECTOR UPDATES

For each Governance Scrutiny Group meeting, we provided our Sector Update on issues impacting the local government sector, including updates on the Autumn Statement and the Best Value Framework. We also participated in the Local Government Association Peer Challenge exercise.



KEY THEMES



PEOPLE

The Council welcomed our internal audits and provided us with strong levels of time and support during our reviews, whether delivered remotely or in-person. This demonstrates the organisation's positive approach towards internal audit and enhancing internal controls. Our reviews covered a range of service areas, demonstrating positive engagement with internal audit across the Council.



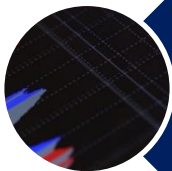
INCOME COLLECTION

Several reviews focused on income collection for the Markets, Rushcliffe Country Park and Rushcliffe Oaks Crematorium. Overall there were effective controls in place to support the accurate charging and timely recovery of income.



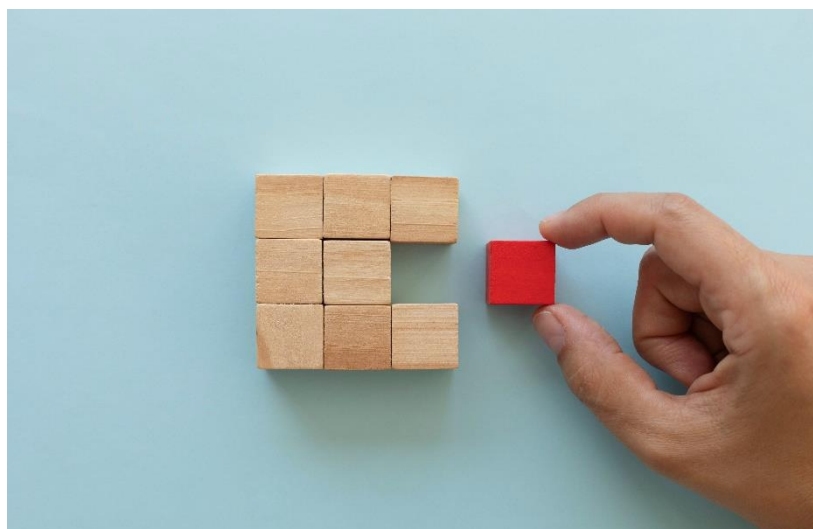
CLIMATE CHANGE

Climate change is a prominent topic across the public sector, with many local authorities (including the Council) declaring a climate emergency. This was covered as part of the Fleet Management review where we identified good progress towards reducing carbon emissions from the Council's fleet. We have further reviews on climate change planned for 2024/25.



SYSTEMS AND PROCESSES

The Council has effective systems in place and processes were well followed, hence a continued high number of Substantial control effectiveness opinions. In particular, there were appropriate access controls to the E-Financials System and there were reasonable controls for reconciliations with third-party systems, maintaining the assurance over the integrity of financial data.



BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to Rushcliffe Borough Council (the Council) is to provide an opinion to the Council, through the Governance Scrutiny Group, on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12-month period from April 2023 to March 2024 was carried out in accordance with the internal audit plan approved by the Executive Management Team and the Governance Scrutiny Group, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

Audit Approach

We have reviewed the control policies and procedures employed by the Council to manage risks in business areas identified by management set out in the 2023-24 Internal Audit Annual Plan. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with the Council's management for each review, by:

- ▶ Considering the risks that have been identified by management as being associated with the processes under review.
- ▶ Reviewing the written policies and procedures and holding discussions with management to identify process controls.
- ▶ Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage.
- ▶ Performing walkthrough tests to determine whether the expected risk management activities and controls are in place.
- ▶ Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

Reporting Mechanisms and Practices

Our initial draft reports are sent to the key contact responsible for the area under review to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports. All reports are also shared with the Executive Management Team member responsible for the area to obtain their approval of the management responses, to ensure there is senior ownership and agreement to the recommendations and implementation dates.

Our method of operating with the Governance Scrutiny Group is to agree reports with management and then present and discuss the matters arising at the Governance Scrutiny Group meetings.

Management actions on our recommendations

Management were engaged with the internal audit process and provided considerable time to us during the fieldwork phases of our reviews, in most cases providing audit evidence promptly and allowing the reviews to proceed in a timely manner, including opportunities to discuss findings and recommendations prior to the issue of draft internal audit reports. Management responses to draft reports were broadly in line with the requested time period, with detailed responses on the actions to be implemented.

Recommendations Follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

Recommendations were generally implemented in line with the initial due date agreed with management. Furthermore, responses to our follow up requests were provided in a timely manner, allowing sufficient time for evidence to be reviewed for completed recommendations. We have been set up on the Council's Microsoft Teams Channel to provide ongoing updates on the completion of recommendations and direct access to evidence. This has further improved the completion of recommendations. All recommendations from 2022-23 and before have been fully implemented, with progress made towards the implementation of 2023-24 recommendations. This demonstrates a positive commitment to a robust control environment.

Relationship with External Audit

All our final reports are available to the external auditors through the Governance Scrutiny Group papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

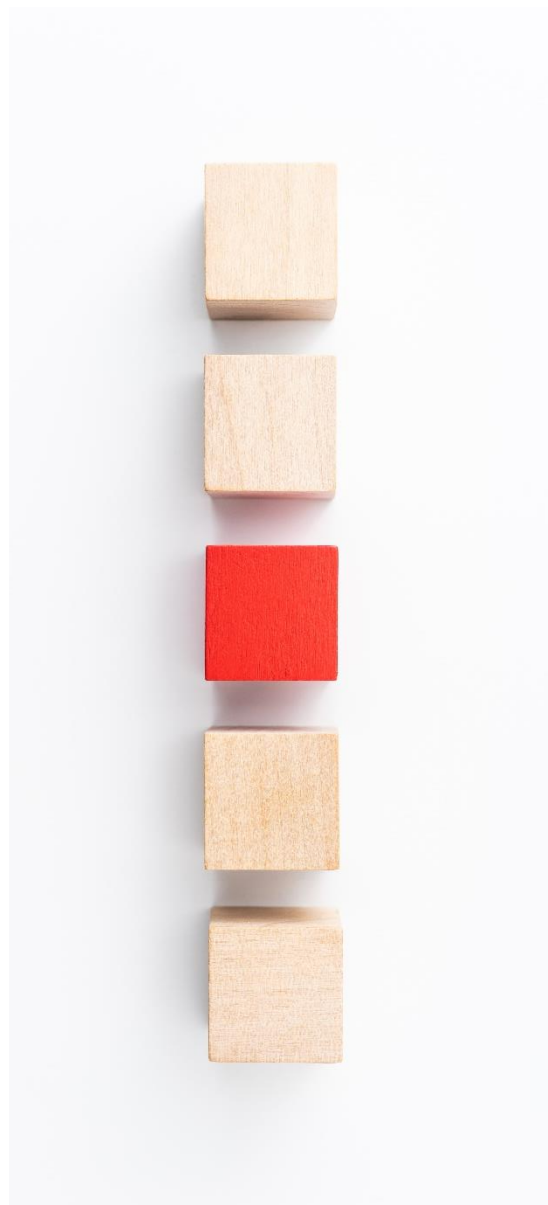
Report by BDO LLP to Rushcliffe Borough Council

As the internal auditors of the Rushcliffe Borough Council (the Council) we are required to provide the Audit Committee, and the Executive Management Team with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.





In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides the Council with **Substantial assurance** that there are no major weaknesses in the internal control system for the areas reviewed in 2023-24. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- ▶ All internal audits undertaken by BDO LLP during 2023-24.
- ▶ Any follow-up action taken in respect of audits from previous periods for these audit areas.
- ▶ Whether any significant recommendations have not been accepted by management and the consequent risks.
- ▶ The effects of any significant changes in the organisation's objectives or systems.
- ▶ Matters arising from previous internal audit reports to the Council.
- ▶ Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work.







KEY PERFORMANCE INDICATORS

Quality Assurance	KPI	RAG Rating
The auditor attends the necessary, meetings as agreed between the parties at the start of the contract	All meetings attended including Governance Scrutiny Group meetings, pre-meetings, individual audit meetings and contract reviews have been attended by either the Partner or Audit Manager. Additionally scoping and closing meetings were attended by the Audit Manager.	
Positive result from any external review	Following an External Quality Assessment by the Institute of Internal Auditors in May 2021, BDO were found to 'generally conform' (the highest rating) to the International Professional Practice Framework and Public Sector Internal Audit Standards.	
Quality of Work	We have received four survey responses for audits completed in 2023-24 with an average score of 4.5/5 for the overall audit experience. We also received an average score of 4.5/5 for the added value from our reports and the constructiveness of our recommendations. We continue to send out feedback surveys when issuing our final reports.	
Completion of audit plan	We have completed the full audit plan for 2023-24 plus advisory work on the Fraud Report. We were flexible throughout the year, using contingency days to complete a review of Grant Management Controls at short notice to provide assurance to the Director of Finance and Corporate Resources over controls in place to administer the LAD3 grants ahead of their submission to the Midlands Net Zero Hub in December 2023.	

APPENDIX 1

OPINION SIGNIFICANCE DEFINITION

ANNUAL OPINION DEFINITION	
Substantial - Fully meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance.
Moderate - Significantly meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance.
Limited - Partly meets expectations	Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance.
No - Does not meet expectations	Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance.

REPORT OPINION SIGNIFICANCE DEFINITION				
Level of Assurance	Design Opinion	Findings	Effectiveness Opinion	Findings
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed, albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of noncompliance with some controls that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE DEFINITION	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:

GURPREET DULAY

Gurpreet.Dulay@bdo.co.uk

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

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Governance Scrutiny Group

Thursday, 30 May 2024

Annual Fraud Report 2023/24

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

The purpose of this report is to summarise the incidence of fraud and fraud prevention activities at Rushcliffe Borough Council (“the Council”) during the year 2023/24.

2. Recommendation

It is RECOMMENDED that the Governance Scrutiny Group considers the Annual Fraud Report for 2023/24.

3. Reasons for Recommendation

- 3.1. To provide an annual update to the Governance Scrutiny Group regarding the Council’s fraud prevention environment and report on any frauds, if identified.
- 3.2. The Annual Fraud Report 29 June 2023 recommended that the Council should carry out a Fraud Risk Assessment in the next 12 months. This has been completed but due to the sensitivity of the details in the review, it is not included in this report. BDO will report on their review of the assessment at the September meeting.
- 3.3. This report has been prepared by BDO LLP (“BDO”) to summarise the fraud prevention and detection activities undertaken by the Council. For the avoidance of doubt, BDO has not undertaken a full fraud risk assessment or audited any information provided to it (as summarised within this report) by the Council’s officers. That said, when BDO undertake other audit work, if a fraud is suspected or identified, then it would be investigated; and reported to the Governance Scrutiny Group if a fraud was proven. Their detailed report is appended with no frauds identified.

4. Supporting Information

- 4.1. The appended report highlights the current landscape regarding fraud and the public sector. The Public Sector Fraud Authority (PSFA) in its 2023 Annual Report, entitled ‘Cross- Government Fraud Landscape’ highlighted, amongst other things, that detected fraud and error increased by 52% in

2021-22 from the prior year (rising from £541m to £823m) and that a significant proportion of the increase was linked to COVID related fraud.

- 4.2. In November 2023 the PSFA published its latest Annual Report, which highlighted that the PFSA had surpassed its target of achieving £180 million of savings for the taxpayer in its first 12 months by preventing and recovering £311 million. Approximately 50% of the amount prevented and recovered was in relation to COVID and Bounceback loan schemes.
- 4.3. Part of the level of detected fraud in the public sector arises from the National Fraud Initiative (NFI) exercises, which this Council is actively involved with. Further commentary is covered in Section 5 of the report.

5. Other Options Considered

Not Applicable.

6. Risks and Uncertainties

If recommendations are not acted upon there is a risk internal controls would be weakened, and the risk would materialise. No significant risks identified.

7. Implications

Financial Implications

- 7.1 There are no financial implications associated with the recommendations to this report.

Legal Implications

- 7.2 There are no legal implications associated with the recommendations to this report.

Equalities Implications

- 7.3 There are no equalities implications associated with the recommendation to this report.

Section 17 of the Crime and Disorder Act 1998 Implications

- 7.4 There are no section 17 implications associated with the recommendations to this report.

Biodiversity Net Gain Implications

- 7.5 There are no Biodiversity Net Gain implications associated with the recommendation to this report.

8. Link to Corporate Priorities

Quality of Life	The detection and subsequent investigation of fraudulent activity supports the Council's ability to deliver services across its priority areas.
Efficient Services	
Sustainable Growth	
The Environment	

9. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group considers the Annual Fraud Report for 2023/24

For more information contact:	Peter Linfield, Director – Finance and Corporate Services plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None
List of appendices:	Appendix 1 – BDO Annual Fraud Report 2023/24

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Annual Fraud Report 2023/24**1. Summary**

- 1.1 The purpose of this report is to summarise fraud prevention activities and any known incidence of fraud and at Rushcliffe Borough Council (the Council) during the year 2023--24.
- 1.2 This report has been prepared by BDO LLP (BDO) to summarise the fraud prevention and detection activities undertaken by the Council. For the avoidance of doubt, BDO has not undertaken a full fraud risk assessment or audited any information provided to it (as summarised within this report) by the Council's officers.
- 1.3 This report is prepared under BDO's service level agreement with the Council dated 4 April 2024 for internal audit services and it has been prepared strictly for use by the Council. BDO understands that it will be made available to relevant internal committees within the Council. In all other respects, this report is confidential and should not be used, reproduced, or circulated for any other purpose, in whole, or in part, without BDO's prior written consent. We do not owe a duty of care to anyone other than the Council.

2. Supporting Information

- 2.1 In August 2022, the government launched the Public Sector Fraud Authority (PSFA). A key objective of this body is to help ensure a consistent strong approach to counter fraud across the public sector, and to support public sector bodies to better understand and manage their fraud risks. The PSFA is also responsible for maintaining the Government's Functional Standards for Counter Fraud (GovS 013), which details measures that public bodies should have in place to control fraud and assesses public bodies' compliance with these.
- 2.2 In March 2023, the PSFA published its 2021-2022 Annual Report, entitled 'Cross-Government Fraud Landscape', which was the latest large-scale review of levels of public sector fraud. This report¹ highlighted that in 2021--22, reported levels of detected fraud and error increased by 52% from the prior year (rising from £541m to £823m) and that a significant proportion of the increase was linked to COVID related fraud. In November 2023, the PFSA published its latest Annual Report, which focused on progress against its objectives in its inaugural year. This report² highlighted that the PFSA had surpassed its target of achieving £180 million of savings for the taxpayer in its first 12 months by preventing and

¹ Refer to Cross-Government Fraud Landscape, pages 6 and 12

² https://assets.publishing.service.gov.uk/media/6554919250475b000dc5b5e0/Public_Sector_Fraud_Authority_Annual_Report_2022-2023.pdf

recovering £311 million. Approximately 50% of the amount prevented and recovered was in relation to COVID and Bounceback loan schemes.

- 2.3 Part of the level of detected fraud in the public sector arises from the National Fraud Initiative (NFI) exercises. Across England in 2020 to 2022, £56.2m³ of fraud was detected and there was an 85% recovery rate. Significant issues identified included misuse of concessionary travel passes and blue badges, as well as incorrect council tax single person discount claims. Updated detailed results for the period since 2022 have not yet been released. However, the PFSA 2022--23 Annual Report highlighted that, in 2022--23, the NFI data matching exercises delivered benefits of £171m. We discuss the Council's specific NFI results in **Section 5** of this report.

3. Preventing and Detecting Fraud

- 3.1 Fraud and conduct issues can involve Council employees, elected members, partners, customers, and the public. Both conduct and fraud issues can be identified/raised in several ways:
- a) Proactive detection work, undertaken internally or externally, for example as part of the NFI; and
 - b) Referral by employees, elected members, partner organisations, or members of the public, or identification by management.
- 3.2 In carrying out its functions and responsibilities, the Council is firmly committed to dealing with fraud or corruption and will deal equally with attempted and perpetrated fraud or corruption from inside or outside the Council.
- 3.3 The Council does not have a dedicated fraud prevention resource. However, it is the responsibility of managers within the Council's teams (Management), as part of the internal control environment, to ensure controls are in place to mitigate the risk of fraud. Officers with responsibility for monitoring and reporting levels of council tax fraud (under the NFI) and grant fraud, as described in the report, are located within the finance directorate. These areas are therefore subject to oversight by the same managers and directors, ensuring a level of consistency in the fraud control framework. There have not been any changes to the control environment in 2023--24.
- 3.4 Whilst it is not their direct responsibility to detect fraud, Internal Audit may identify instances of fraud through their reviews and are available to support Council officers to consider next steps for investigating any allegations of fraud in consultation with BDO's Forensic Accounting specialists if required. During 2023--24 Internal Audit services were provided by BDO.

³ <https://www.gov.uk/government/publications/national-fraud-initiative-reports/national-fraud-initiative-report-december-2022-html#fraud-overpayments-and-errors-identified-and-prevented-across-the-uk-1996-to-2022>

- 3.5 Internal Audit has confirmed that no incidents of fraud directly associated with the Council were identified during 2023--24. However, during a review of grant management controls Internal Audit identified an incident whereby a subcontractor requested payment for services covered by a grant, this is discussed in more detail in **paragraph 8.1**.
- 3.6 Management is aware of frauds that occur across the sector and engage with Internal Audit and others as appropriate to discuss whether there is any material exposure to the Council from the issues noted in any relevant cases identified. Management have informed us that during the year it was identified that a taxi driver did not have a Rushcliffe Borough Council issued licence, the value of this fraud was immaterial, and the matter was resolved. Management is not aware of any further incidents of fraud that have occurred in 2023--24.
- 3.7 This year, following recommendations arising from the 2022--23 Fraud Report, the Council has undertaken a fraud risk assessment to assess and document its exposure to fraud risk. We will review this assessment and report on this at the next meeting.
- 3.8 The Council's Anti-Fraud & Corruption Policy was reviewed during 2019--20 to ensure it is up to date and appropriate. BDO also provided comments as part of its Internal Audit plan in 2020--21 and compared the Policy to the Government Functional Standard for Counter Fraud, Bribery and Corruption. The Policy is scheduled for review in 2024.
- 3.9 The Council is a member of the Nottinghamshire Fraud Partnership, which was formed in 2023. This Partnership aims to bring organisations together to protect individuals and businesses against fraud, respond to emerging threats and support victims through collaboration and sharing of information. The Partnership meets quarterly and is facilitated by the Office of the Police and Crime Commissioner for Nottinghamshire⁴.
- 3.10 For the avoidance of doubt, no additional work has been undertaken by BDO in relation to fraud risks beyond the scope of this report and the activities described within it, and BDO has not undertaken a fraud risk assessment exercise for the Council for the purpose of this report.

4. Whistleblowing Policy

- 4.1 It is important to any organisation that any fraud, misconduct or wrongdoing by workers or officers of the organisation is reported and properly dealt with. We understand that the Council's Whistleblowing Policy encourages all individuals to raise any concerns that they may have about the conduct of others within the Council.
- 4.2 There are no specific awareness campaigns, such as posters advertising the Whistleblowing Policy. However, employees are made aware of the

⁴ <https://www.nottinghamshire.pcc.police.uk/Our-Work/Nottinghamshire-Fraud-Partnership.aspx>

whistleblowing procedures on the staff intranet page and managers also encourage an open culture and encourage their teams to discuss any concerns with them. In addition, staff are reminded of financial issues through internal newsletters.

- 4.3 The Whistleblowing Policy applies to all employees and those contractors working for the Council, on Council premises, for example, agency staff and contractors. It also covers suppliers and those providing services under a contract with the Council on their own premises.
- 4.4 BDO has not reviewed the Council's whistleblowing policy for the purpose of this report. Our comments in relation to staff awareness and training are included at **Section 9**.
- 4.5 There have been no whistleblowing concerns reported during 2023--24. It is not possible to determine the reason for the lack of reports, i.e. whether there is a genuine absence of concerns and therefore nothing to report, or whether the absence of reports is due to a lack of awareness of the Policy within the employee base.

5. National Fraud initiative (NFI)

- 5.1 The NFI is a data matching exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. A national exercise is undertaken every two years, although electoral roll and council tax data is required to be submitted annually. Once the data-matching process for each exercise is completed, the NFI makes the output available to the relevant participating body for consideration and investigation via the secure NFI software. Participating bodies are then responsible for investigating any matches.
- 5.2 The Council conducted a review in respect of single person discounts via the NFI in November 2023. The results of this exercise were as detailed below:

2023--24	2022--23	2021--22	2020--21	
109	800	517	721	Number of cases identified by NFI
109	69	23	591	Number of live cases investigated
1	69	17	81	Number of cases where the discount was removed
£18,915	£17,163	£2,146	£24,222	Value of extra council tax billed

- 5.3 The number of cases investigated, and the additional council tax billed, are shown above. The cases identified by the NFI are split into two reports (one relating to rising 18-year-olds and the other a data match with the Electoral Register). Only the report relating to rising-18-year-olds was investigated by the Council in year. In November 2023, the Council forwarded details of 16,930 single person discount cases to an external contractor to conduct a review. The records of the single person discounts were matched with financial data, and as a result 3,350 cases were identified for further contact. Of these cases 463 had their single person discount removed, which generated additional council tax revenue of £175,000.
- 5.4 All council tax discounts awarded (except single person discounts due to the volume) are reviewed on an annual basis and applicants are advised that they should inform the Council of any changes. In addition, the Council is reviewing National Non-Domestic Rates (NNDR) reliefs, such as discretionary reliefs. The Council does not undertake any wider exercises to publicise measures taken against residents who have incorrectly claimed a discount to act as a deterrent, with the annual reminders instead relied upon to remind residents of their obligations.
- 5.5 Where it is discovered that a discount has been incorrectly claimed, the discount is removed on the billing system and the correct charge raised (these amounts are included in the value of extra council tax billed quoted in the tables above). The discount is removed from the customer's account from the date that they are no longer entitled to it. The charge is then recovered as unpaid council tax, subject to reminders/summons as per the Council's recovery policy.
- 5.6 The NFI data-matches relating to housing benefit are completed every two years and the next results in this area will be included in the 2024-25 Fraud Report.

6. Internal Investigations 2023-24

- 6.1 The only known instance of fraud during 2023-24 is the taxi licence related matter described in **paragraph 3.5 to 3.6**. There have been no other internal fraud investigations during the year. However, as noted in **paragraph 4** above, the internal whistleblowing hotline is not actively promoted, which could impact the reporting rate.

7. Benefit Fraud Investigations Conducted by the Counter Fraud and Compliance Directorate

- 7.1 The Council no longer investigates housing benefits frauds. These are undertaken by the Department for Work and Pensions (DWP) Counter Fraud and Compliance Directorate (CFCD).

- 7.2 The DWP has a suite of management information that allows local authorities (LAs) to monitor the progress of referrals made to CFCD and enables LAs to see the outcomes CFCD are achieving on their behalf. Additionally, it enables LAs to make a comparison of the volume of referrals that they have made against the national average.
- 7.3 As was the case in the prior year, no data has been made available to the Council at the time of preparing this report.

8. Grants Administered by the Council

- 8.1 During the year 2023-24, Internal Audit undertook a review into grant management controls. This review concerned the grant income received by the Council to support energy efficiency measures and low carbon heating. One instance of potential fraud was found where a subcontractor requested payment of £200 from a resident for services paid for by the grant. This highlighted a weakness around preventative fraud communications for grants. Further details of this incident are included within the Internal Audit Report which has been separately reported to the Council.

9. Fraud Awareness and Strategy

- 9.1 No fraud awareness training has been provided to Council employees during 2023-24, with such training last being delivered during 2022-23, when a session was delivered by BDO. The Council should consider offering fraud awareness training to staff on a regular basis, which should include reminding staff of the whistleblowing arrangements. Senior officers should also consider making use of employee engagement sessions to promote counter fraud messages.
- 9.2 The Council may also wish to test levels of awareness of counter fraud arrangements amongst staff by, for example, inclusion of questions relating to this area in staff surveys.

10. Fraud Risk Assessment

- 10.1 The Council has prepared a fraud risk assessment (FRA) during the year, and we have been asked to undertake a limited review of this and provide comments as part of this fraud report. Our review of the FRA will be provided to the next GSG.



Governance Scrutiny Group

Thursday, 30 May 2024

External Audit Annual Plan 2023/24

Report of the Director – Finance and Corporate Services

1. Purpose of report

- 1.1. The attached report from Mazars summarises their approach to external audit activity with regard to the final accounts process and their approach to value for money work in relation to the financial year 2023/24.
- 1.2. Mazars highlight three significant risks concerning management override of controls, valuation of the LGPS defined benefit pension, valuation of land and buildings (see pages 15 to 19 of Appendix 1).
- 1.3. Mazars will conduct a Value for Money (VFM) review in line with the 2020 Code of Audit Practice reporting on financial sustainability, governance and improving economy, efficiency and effectiveness.
- 1.4. Mazars staff will be available at the meeting to answer any detailed questions arising from the report.

2. Recommendation

It is RECOMMENDED that the Governance Scrutiny Group accept the External Audit Annual Plan.

3. Reasons for Recommendation

To comply with the Audit Commission's Code of Audit Practice and relevant legislation and accord with good governance.

4. Supporting Information

- 4.1. Councillors will be aware that the Council has a legal requirement to produce a draft Statement of Accounts by the 31 May which is then subject to review by the Authority's external auditors, Mazars, and approval by 'those charged with governance', the Governance Scrutiny Group, by the 30 September 2024.
- 4.2. On page 12 of the Audit Plan, Mazars have set the completion target date as August 2024, which would allow for approval of the Audit Completion Report at the Governance Scrutiny Group meeting on the 26 September. If this deadline is not met then the report will have to be presented to the November

Committee, assuming the work is completed by the deadline to submit reports for this meeting.

- 4.3. The attached report details the approach that Mazars will use when auditing the 2023/24 Statement of Accounts. It specifies the work they will undertake, when they anticipate undertaking this work, and how they will liaise with Council staff. It also details the key risks with regards to both the year-end accounts and the Council achieving value for money. These are:
- management override of controls
 - valuation of the LGPS defined benefit pension
 - valuation of land and buildings
- 4.4. It should be noted that the audit fees for 2023/24 are currently set at £128,376. The new 2023/24 scale fee includes additional fees in respect of the VFM commentary. PSAA review the scale fee each year and make adjustments to reflect new requirements such as auditing standard ISA315 and IFRS16 (Leases) and is therefore subject to change. This represents a significant increase of 200% on the 2022/23 scale fee and is not uncommon with the increases experienced by other district/borough Councils.
- 4.5. Total approved fees for 2022/23 (including fee variations) are £50,513 offset by £17,808 additional funding. These are in line with PSAA and include additional testing as a result of the implementation of new auditing standards ISA540, Streetwise insourcing and Value For Money. PSAA are still considering fee variations in relation to ISA315 and therefore the final fees are subject to change.
- 4.6. Management will continue to challenge the rising fees and their reasonableness compared to audit risk particularly at a time of cost pressures across all service areas. The public sector audit and accounting labour market is under pressure and this, along with other cost pressures, are impacting upon costs across the sector and ultimately reflected in the PSAA contract. Any future rationalisation of audit requirements could result in reduced fees although it is not known when or if this may happen.

5. Risks and Uncertainties

The Mazars report highlights relevant risks (stated at paragraph 4.3 above).

6. Implications

6.1. Financial Implications

The audit fee (paras 4.4) relating to the costs of the audit work will be met from existing budgets.

6.2. Legal Implications

The Governance Scrutiny Group plays a key role in supporting the Council's governance controls by supporting and contributing to the Council's responsibility to maintain an adequate and effective system of internal control.

6.3. Equalities Implications

There are no equalities implications.

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

There are no Section 17 implications.

6.5. Biodiversity Net Gain

There are no Biodiversity Net Gain implications.

7. Link to Corporate Priorities

Quality of Life	There is no link to this corporate priority within this report.
Efficient Services	Undertaking an external audit of the financial accounts ensures that proper and efficient services are delivered by the Council.
Sustainable Growth	There is no link to this corporate priority within this report.
The Environment	There is no link to this corporate priority within this report.

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group accept the External Audit Annual Plan.

For more information contact:	Peter Linfield Director - Finance and Corporate Services 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None.
List of appendices:	Appendix 1 – External Audit Annual Plan 2023/24

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Audit Strategy Memorandum

Rushcliffe Borough Council

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Year ending 31 March 2024



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This document is to be regarded as confidential to Rushcliffe Borough Council. It has been prepared for the sole use of the Governance Scrutiny Group as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.



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2 Chamberlain Square
Birmingham
B3 3AX

30th May 2024

Dear Governance Scrutiny Group Members,

Audit Strategy Memorandum – Year ending 31 March 2024

We are pleased to present our Audit Strategy Memorandum for Rushcliffe Borough Council for the year ending 31 March 2024. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Rushcliffe Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me at Mark.Surridge@mazars.co.uk.

Yours faithfully

Mark Surridge
Mazars LLP

01

Section 01:

Engagement and responsibilities summary

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Rushcliffe Borough Council (the Council) for the year to 31 March 2024. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined overleaf.

At the time of presenting our Audit Strategy Memorandum, there are a series of active consultations in place that could impact upon both the Council's financial statements and the work we are required to undertake. Appendix C summarises the proposals under each of the consultations and further details can be found on the Financial Reporting Council's [website](#). Should the outcome of these consultations affect the risks we have identified or the scope of our work, we will provide further information to the Governance Scrutiny Group in due course.

1. Engagement and responsibilities summary

Overview engagement responsibilities

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Governance Scrutiny Group as Those Charged With Governance, of their responsibilities.

The Director of Finance & Corporate Services and s151 Officer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- a) Whether a material uncertainty related to going concern exists; and
- b) Consider the appropriateness of the Director of Finance & Corporate Services and s151 Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rushcliffe Borough Council's internal control.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Value for money

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



02

Section 02:

Your audit engagement team

2. Your audit engagement team

Below is your audit engagement team and their contact details.




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Engagement Lead

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Audit Assistant Manager

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03

Section 03:

Audit scope, approach and timeline

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3. Audit scope, approach and timeline

Risk-based Approach



3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

3. Audit scope, approach and timeline

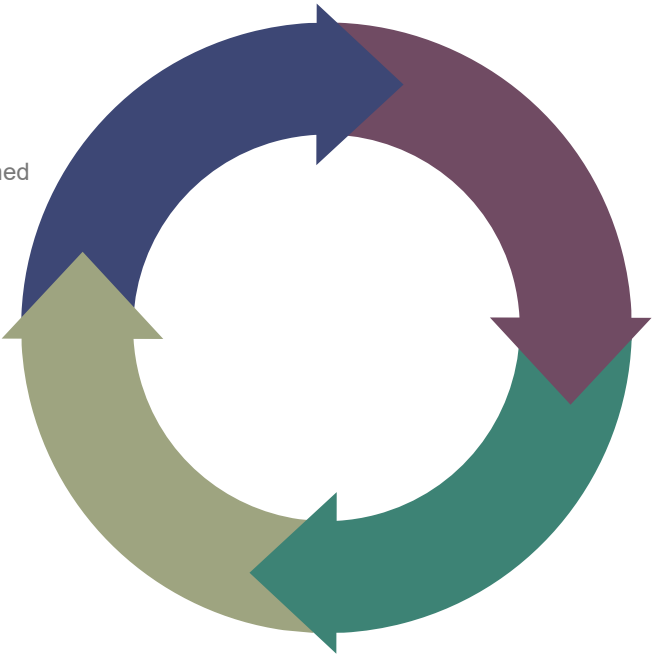
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Planning and Risk Assessment (March)

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Risk identification and assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Completion (September)

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Governance Scrutiny Group
- Reviewing subsequent events
- Signing the independent auditor's report
- Concluding our value for money work and issuing our Auditor's Annual Report



Interim (March – April)

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary
- Initial value for money planning and risk assessment

Fieldwork (June – August)

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting
- Updating our value for money risk assessment, and performing risk based procedures

3. Audit scope, approach and timeline

Management’s and our experts

Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Property, Plant & Equipment and Investment Property	Nick Berry and Leanne Ashmore (Internal Valuers)	None. Third party evidence is provided via the NAO to support our challenge of valuation assumptions
Pensions	Barnett Waddingham (Actuary for Nottinghamshire Pension Fund)	PwC (Consulting actuary appointed by the NAO)
Financial Instruments disclosures	Arlingclose (Treasury Management Advisors)	None

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Employee Benefits Expenses	Gedling Borough Council The payroll entries included in Rushcliffe Borough Council’s statement of accounts are significant. These disclosures derive from monthly payroll runs processed and administered by Gedling Borough Council.	We will review the controls over these transactions and document our understanding of the services provided. Additionally, we will conduct detailed audit testing of the relevant disclosures in the statement of accounts.

04

Section 04:

Significant risks and other key judgement areas

Page 88

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.

Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

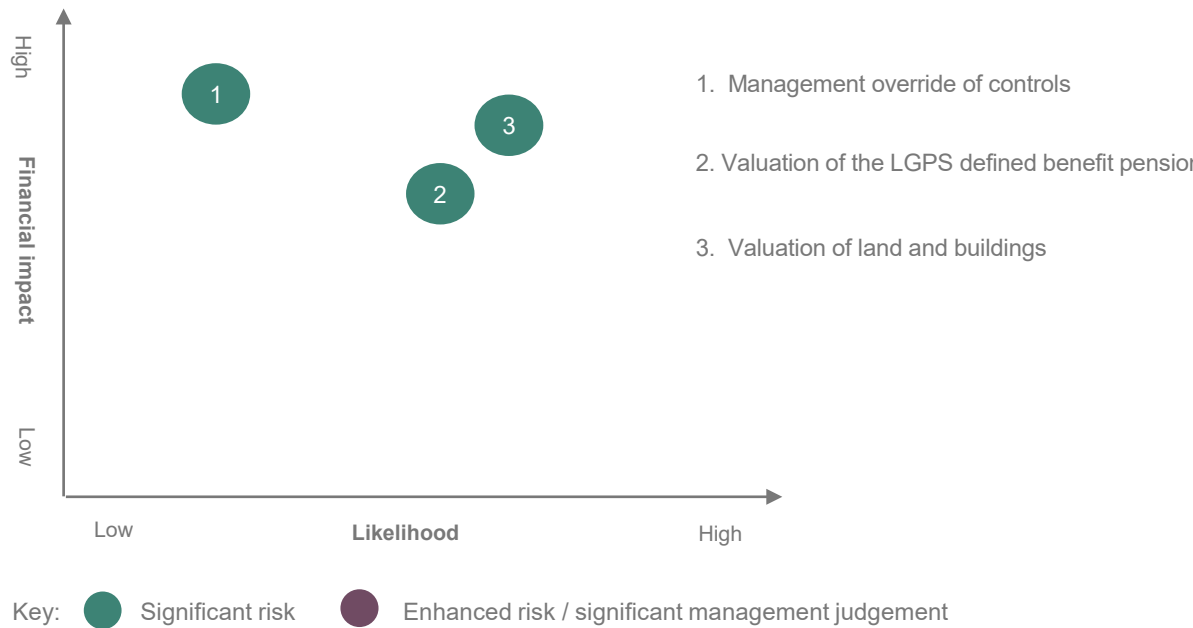
- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of Rushcliffe Borough Council. We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance Scrutiny Group.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1 Page 90	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the risk of management override of controls by performing audit work on accounting estimates, journal entries and significant transactions that are outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks continued

	Description	Fraud	Error	Judgement	Planned response
2	<p>Valuation of the LGPS defined benefit pension</p> <p>Rushcliffe Borough Council is an employer in the Local Government Pension Scheme, administered on a local level by the Nottinghamshire Pension Fund.</p> <p>The defined benefit assets and liabilities are significant items in the Council's balance sheet. In the 22/23 audited statement of accounts these amounted to:</p> <ul style="list-style-type: none"> - Present value of defined benefit obligation - £89,227k - Fair value of plan assets - £73,008k <p>The Council engages an actuary to perform an annual valuation in accordance with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have identified a significant risk in this area.</p>	○	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> • Critically assessing the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary; • Liaising with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • Reviewing the appropriateness of the pension asset and liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by PwC and consulting actuary engaged by the National Audit Office; and • Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries disclosures in the Council's financial statements. In the event of a pension surplus arising in 23/24, its accounting treatment will require specific consideration under IFRIC 14.

4. Significant risks and other key judgement areas

Significant risks continued

	Description	Fraud	Error	Judgement	Planned response
3	<p>Valuation of land and buildings</p> <p>Land and buildings within Property, Plant and Equipment (PPE) and Investment Properties are significant items on the Council's balance sheet.</p> <p>The valuation of land and buildings is complex and involves a number of management assumptions and judgements. Due to the high degree of estimation uncertainty involved, we have identified a significant risk in this area.</p> <p>In the 22/23 audited statement accounts these items amounted to:</p> <ul style="list-style-type: none"> - PPE Land and Buildings - £71,013k - Investment Properties - £31,030k 	○	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> • Critically assessing the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Assessing whether valuation movements are in line with market expectations by using third party information provided by Montagu Evans to provide information on regional valuation trends; • Critically assessing the approach that the Council adopts to ensure that assets not subject to revaluation in 2023/24 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers

4. Significant risks and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether the Governance Scrutiny Group has knowledge of, the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between the Group and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

We plan to do this by formal letter to the Governance Scrutiny Group which we will obtain prior to completing our audit

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters the Governance Scrutiny Group which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

Internal audit function

We do not expect to use the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit determine whether any findings will have an impact on our risk assessment and planned audit procedures.

05

Section 05:

Value for money arrangements

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5. Value for money arrangements

The framework for Value for Money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

2023/24 will be the fourth audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

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1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue deliver its services;
 2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks; and
 3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources include:</p> <ul style="list-style-type: none">• NAO guidance and supporting information;• information from internal and external sources including regulators;• knowledge from previous audits and other audit work undertaken in the year; and• interviews and discussions with officers and Members.
Additional risk-based procedures and evaluation	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
Reporting	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none">• significant weaknesses identified and our recommendations for improvement; and• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

5. Value for money arrangements

Identified risks of significant weaknesses in arrangements

The NAO’s guidance requires us to carry out work at the planning stage to understand the Council’s arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, at this stage we have not identified any risks of significant weaknesses in arrangements. We will report any identified risks to the Governance Scrutiny Group on completion of our planning and risk identification work.

06

Section 06:

Fees for audit and other services

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6. Fees for audit and other services

Fees for work as the Council’s appointed auditor

Public Sector Audit Appointments (PSAA) set the fee scale each year based on the income it needs from audit fees to meet the costs of the audit contracts for opted in bodies and its own costs. PSAA has published the scale fee for 2023/24 on its website, where it also explains the basis of its calculations in coming to this value.

PSAA propose using the fee variations process for certain areas where it felt there was insufficient information at the time to include in the 2023/24 scale fee. It expects to build the following into the future fee scale:

- ISA315 Identifying and Assessing the Risks of Material Misstatement, applicable from 2022/23
- IFRS16 Leases, applicable from 2024/25.

Periodically, PSAA returns any surplus to opted-in bodies by means of a distribution, once it is clear the surplus is no longer needed.

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Our fees (exclusive of VAT) for the audit of Rushcliffe Borough Council for the year ended 31 March 2024, are outlined below. Fee variations for 2023/24 are yet to be confirmed.

Area of work	2023/24 Proposed Fee	2022/23 Actual Fee
Scale fee in respect of our work under the Code of Audit Practice	£128,376	£42,739
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 540 estimates)	TBC	£3,590
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 315)	TBC	£5,700
Other additional testing –additional testing arising from Streetwise insourcing	-	£1,000
Additional fees in respect of the VFM Commentary	Included in scale fee	£6,000
Total fee variations	TBC	£16,290
Total fees	£128,376	£59,029

Fees for non-PSAA work

At this stage, we have not been engaged by the Council to carry out any additional work. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.




07

Section 07:

Our commitment to independence

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7. Our commitment to independence

	Requirements	We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.
	Compliance	We are not aware of any relationship between Mazars and Rushcliffe Borough Council that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of Rushcliffe Borough Council and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.
	Non-audit and Audit fees	We have set out a summary any non-audit services provided by Mazars (with related fees) to Rushcliffe Borough Council in Section 6, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services, Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 2018/19 - PSAA](#). Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and misstatements

Page 102

8. Materiality and misstatements

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Governance Scrutiny Group.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provides a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

8. Materiality and misstatements

Materiality (continued)

We consider that gross revenue expenditure is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of gross revenue expenditure

As set out in the table below, based on currently available information (prior year financial statements), we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £882k (£880k in the prior year), and performance materiality to be in the region of £661k (£660k in the prior year).

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

	2023/24 £'000s	2022/23 £'000s
Overall materiality	£882	£880
Performance materiality	£661	£660
Clearly trivial	£26	£26
Specific materiality: Senior Officers' Remuneration	£10	£10

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to Governance Scrutiny Group and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £26k, based on 3% of overall materiality. If you have any queries about this, please raise these with Mark Surridge

- Each misstatement above the reporting threshold that we identify will be classified as:
- **Adjusted:** Those misstatements that we identify and are corrected by management.
 - **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Governance Scrutiny Group as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover quantitative misstatements, including those relating to the notes of the financial statements.

Reporting

- In summary, we will categorise and report misstatements above the reporting threshold to the Governance Scrutiny Group as follows:
- Adjusted misstatements;
 - Unadjusted misstatements; and
 - Disclosure misstatements (adjusted and unadjusted).



Appendices

A: Key communication points

B: Current year updates, forthcoming accounting & other issues

C: Consultations on measures to tackle the local government financial reporting and audit backlog

Appendix A : Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;

- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix A: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none">• uncorrected misstatements and their effect on our audit opinion;• the effect of uncorrected misstatements related to prior periods;• request that any uncorrected misstatement is corrected; and• in writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none">• enquiries of Governance scrutiny Group to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and• a discussion of any other matters related to fraud.	Audit Completion Report and discussion at Governance Scrutiny Group Audit Planning and Clearance meetings
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none">• non-disclosure by management;• inappropriate authorisation and approval of transactions;• disagreement over disclosures;• non-compliance with laws and regulations; and• difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report

Appendix A: Key communication points

Required communication	Where addressed
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Council or Governance Scrutiny Group in the context of fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Governance Scrutiny Group into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Scrutiny Group may be aware of.	Audit Completion Report Governance Scrutiny Group meetings
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements. 	Audit Completion Report

Appendix A: Key communication points

Required communication	Where addressed
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
<p>Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management:</p> <ul style="list-style-type: none"> • Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.) • Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality • Evaluate responses to identify and remediation process / control gaps <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.</p>	Audit strategy memorandum
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Appendix B: Current year updates, forthcoming accounting & other issues

Applicable for IFRS Reporters

Current and forthcoming accounting issue

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements: Disclosure of Accounting Policies* (Issued February 2021)

- The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates* (Issued February 2021)

- The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 *Insurance Contracts* (issued May 2017) and Amendments to IFRS 17 *Insurance Contracts* (Issued June 2020)

- IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 *Insurance Contracts*: Initial Application of IFRS 17 and IFRS 9 *Financial Instruments* (Issued December 2021)

- The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 *Insurance Contracts* has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

Appendix B: Current year updates, forthcoming accounting & other issues

Applicable for IFRS Reporters

Current and forthcoming accounting issue (continued)

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

- The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 Leases: Lease Liability in Sale and Leaseback (Issued September 2022)

- The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: [Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback](#)

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

- The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: [IASB publishes final amendments on supplier finance arrangements](#)

Appendix C: Consultations on measures to tackle the local government financial reporting and audit backlog

As we outline in the introduction to this report, there are a number of consultations currently taking place that may have implications for: the format and content of the Council's financial statements, the work we are required to undertake under the Code of Audit Practice and the timetable for the publication of the audited statements of account.

In this Appendix, we summarise the proposals in each of the consultations for information.

CIPFA/LASAAC consultation on short-term measures to aid the recovery of local authority reporting and audit

This [consultation](#) proposes amendments to the Code of Practice on Local Authority Accounting (the Accounting Code) applicable only to relevant bodies in England. The proposals are to:

- Extend the current temporary solution for accounting for infrastructure assets beyond 2024/25;
- Remove some disclosure requirements relating to a body's net defined benefit liabilities / assets; and
- Simplify the measurement for operational property, plant and equipment in specific circumstances up to 2025/26.

DLUHC consultation on addressing the local audit backlog in England

This [consultation](#) proposes a range of measures aimed at 'clear the backlog and put the system on a sustainable footing' and outlines two key phases of recovery up to 2027/28. A key aspect of the proposals is to require Category 1 bodies, such as the Council, to publish audited financial statements by a series of backstop dates. This proposal will be put in place by amending the Accounts and Audit Regulations 2015. For statements of account for financial years up to and including 2022/23, this would mean audited accounts will need to be published by 30 September 2024 unless a pre-defined exemption criteria has been met (such as there being an outstanding objection to the accounts at the backstop date).

The consultation sets out other proposals including:

- Publishing a list of bodies and audit firms which do not meet the statutory deadline for publishing audited statements of account; and

- Setting out 'backstop' dates for each financial year up to and including 2027/28.

In including a statutory backstop date for the publication of audited statements of account, the consultation makes it clear that the DLUHC expects that this will give rise to auditors issuing modified audit reports where they have not been able to complete their work on the financial statements.

NAO consultation on draft amendments to the Code of Audit Practice

This [consultation](#) has been launched alongside DLUHC's consultation on amendments to the Accounts and Audit Regulations 2015 and seeks to introduce measures that support more timely auditor reporting. The principle changes to the Code of Audit Practice being proposed are to:

- Require the auditor to issue an opinion on the financial statements by the 'backstop' date outlined in the amended Accounts and Audit Regulations 2015, whether this opinion is modified or not (subject to a number of exemptions);
- Allow the auditor to apply a reduced scope of work in relation to VFM arrangements work for outstanding audits up to and including 2022/23; and
- Require the auditor to publish the Auditor's Annual Report by 30 November each year from the 2023/24 audit year, and for this report to provide a summary of progress on the audit at the time of issue (even if the audit is not complete).

Mark Surridge - Partner

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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Governance Scrutiny Group

Thursday, 30 May 2024

Annual Governance Statement 2023/24

Report of the Director – Finance and Corporate Services

1. Purpose of report

- 1.1. In accordance with the Accounts and Audit Regulations 2015, the Council is required to prepare an Annual Governance Statement (AGS). This is published alongside the Council's Statement of Accounts. The Governance Scrutiny Group, by reviewing this Statement, scrutinises the Council's governance arrangements.
- 1.2. There are additional references linked to the impact of rising inflation and pay inflation, and the Government's recent announcement for council's to produce and submit a Productivity Plan. The Financial Management Code (introduced in 2021) underwent was reviewed by a neighbouring authority during 2023/24 with few issues raised.

2. Recommendation

It is RECOMMENDED that the Annual Governance Statement 2023/24 (Appendix 1), which incorporates actions for the forthcoming year, be reviewed and approved.

3. Reasons for Recommendation

To conform with best practice in regard to corporate governance and to comply with relevant legislation.

4. Supporting Information

- 4.1 The Council is required to publish an Annual Governance Statement (see Appendix 1) alongside the Statement of Accounts in accordance with the Accounts and Audit Regulations 2015.
- 4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) have jointly issued a framework and guidance in relation to the AGS, 'Delivering Good Governance in Local Government (2016 Edition)'. The guidance urges local authorities to prepare a governance statement in order to report publicly on the extent to which they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period.

- 4.3 It also recommends that when complying with the guidance, authorities should use it in a way that best reflects their structure, type, functions and size. The AGS is attached at Appendix 1 and is prepared following the completion of 'Governance Assurance Questionnaires' by senior officers of the Council. The Leader and the Chief Executive are required to sign the AGS and this will accompany the Council's Statement of Accounts.
- 4.4 The AGS reflects the requirements of the updated CIPFA/SOLACE "Delivering good governance in local government framework (2016)". This incorporates the seven principles within the Local Code and are referenced in the relevant sections of the AGS. Other content surrounding, for example, Section 4 'Significant Governance Issues', will inevitably alter as new risks and opportunities arise, and the environment the Council operates in evolves over time.
- 4.5 The AGS is subject to change when the Financial Statements are presented to the Governance Scrutiny Group in September, as new risks emerge such as issues in the Middle East and the inflation pressures.
- 4.6 The final AGS will be reported with the Statement of Accounts which will be approved at the Governance Scrutiny Group in September 2024. The CIPFA Financial Management Code was introduced in 2021 and included a requirement to undertake a self-assessment and produce an action plan. This has been revisited and a neighbouring authority has reviewed the Council's self-assessment giving it a relatively clean bill of health.

5 Risks and Uncertainties

The process of preparing and reviewing the AGS adds value to the corporate governance and internal control framework of the Council.

6 Implications

6.1 Financial Implications

There are no direct financial implications arising from this report.

6.2 Legal Implications

Compliance with the Accounts and Audit Regulations 2015.

6.3 Equalities Implications

There are no equalities implications contained within the body of this report.

6.4 Section 17 of the Crime and Disorder Act 1998 Implications

There are no Section 17 implications contained within the body of this report.

6.5 Bio Diversity Net Gain Implications

There are no Bio Diversity Net Gain implications contained within the body of this report.

7 Link to Corporate Priorities

Quality of Life	Effective governance enables the Council to achieve all of its Corporate Priorities.
Efficient Services	
Sustainable Growth	
The Environment	

8 Recommendations

It is RECOMMENDED that the Annual Governance Statement 2023/24 (Appendix 1) which incorporates actions for the forthcoming year be reviewed and approved.

For more information contact:	Peter Linfield Director – Finance and Corporate Services 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	Mazars –Annual Report 2022/23 BDO- Annual Report 2022/23
List of appendices:	Appendix 1 – Annual Governance Statement

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ANNUAL GOVERNANCE STATEMENT 2023/24**1. SCOPE AND PURPOSE****1.1 Scope of responsibility**

Rushcliffe Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Rushcliffe Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

Rushcliffe Borough Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government (2016)*. The seven principles (A-G) are highlighted at various points within the statement. This statement explains how Rushcliffe Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, 2011 and 2015, in relation to the publication of a statement on internal control.

1.2 The purpose of the governance framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of Rushcliffe Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Rushcliffe Borough Council for the year ended 31 March 2024 and up to the date of approval of the statement of accounts.

2 THE GOVERNANCE FRAMEWORK

Principles C & D – *Defining outcomes in terms of sustainable benefits (economic, social and environmental) and determining interventions to achieve them*

2.1 Vision and priorities

Long term strategic planning has enabled Rushcliffe to address its immediate financial pressures, develop a medium-term financial strategy to 2028/29 and an updated Corporate Strategy covering the period 2024 to 2027. The document is a 'living strategy' – one which will grow and evolve over its lifespan to adapt to the change needs of the authority. The four key priorities, contained within the Strategy, are:

- Quality of Life
- Efficient Services
- Sustainable Growth
- The Environment.

The integration of service and financial planning continues year on year and is resourced by the financial strategy.

The Council continues to work towards the delivery of its Transformation and Efficiency Strategy, its plan to address the financial pressures facing all public bodies. This also incorporates the Council's Productivity Plan (a requirement introduced by Government as part of the 2024/25 financial settlement). This outlines how the Council will meet its financial challenges until 2028/29. The Transformation and Efficiency Strategy focuses upon three key elements – income generation, transformation and business cost reduction and aligns to the Productivity requirements (Service Transformation, Technology and Reducing Waste). As part of the transformation process, the Council is continuously reviewing the services it provides to identify improved or alternative methods of delivery which will enable it to meet its financial targets without eroding the high quality of service for which Rushcliffe is known.

All key tasks within the current service delivery plans have been linked directly to the Council's strategic objectives.

2.2 Improvement and Efficiency

As with other public bodies, the Council continues to face significant financial pressures. The 2024/25 Medium Term Financial Strategy (MTFS) predicts a net budget deficit over 5 years of £1.6m (4% of annual gross expenditure) and whilst this can comfortably be accommodated from reserves in the short term, the Council's priority will be to identify and deliver robust plans to transform processes and deliver efficiencies; and focus on opportunities to grow the Borough and manage the impact of growth and the changing socio-political, financial and environmental climate. The impact of both the Ukraine and Middle East conflicts continue to create much economic uncertainty impacting particularly on fuel and energy prices. Whilst pay increases are expected to decline, the salaries base budget has increased significantly over the past 3 years. This undoubtedly presents risk to the Council's budget position. That said the Council has a Contingency budget of £0.3m and will look to any further revenue budget efficiencies to support budget pressures. Other pay and service challenges arise from the ability to attract and retain staff. Inflation does have an impact on who we trade with which in turn impacts supplies and services, transport and premises budget lines.

A combination of cost control and income generation and better than expected local economic performance and increased Nottinghamshire Business Rates Pool Surplus linked to prudent management of the Council's finances, resulted in a projected budget efficiency position in 2023/24 (at Quarter 3) of £0.665m for 2023/24 mostly as a result of Business Rates Pool surplus and additional grants received. This represents a variance of 4.53% of Net Service Expenditure. Much of which is committed with carry forward requests to meet service challenges. Going forward there remain significant financial risks, and these are commented on below. Use of the Organisational Stabilisation reserve will ensure the Council continues to deliver its main corporate objectives. The impact of ongoing high inflation linked to both rising employee and energy costs means the trajectory of economic recovery remains uncertain and will continue to be closely monitored along with the associated changes to the Council's projected financial position.

Going forward, the Council will review the Transformation Programme (Productivity Plan) as part of its ongoing financial governance arrangements. The Business Rates, Fair Funding and New Homes Bonus reviews continue to be delayed and it is anticipated now that these will not come to fruition until 2026/27, at the earliest and revised assumptions are reflected in the MTFS.

The budget will still focus on the following thematic areas to be balanced in future years:

- (a) Service Efficiencies – focusing on both the customer and streamlining services;
- (b) Management budget control – challenging base budgets each year;
- (c) Transformational Projects – projects such as a new crematorium, Bingham leisure hub facilities and bringing Streetwise back in-house; and
- (d) 'Thinking big' reviews – the emergence of the Development Corporation and Freeport area around Ratcliffe-on-Soar power station.

To secure a medium-term financial position, the Council will maintain progress and focus on managing budget reductions where appropriate, managing inflationary pressures on its operational costs, whilst increasing income to deliver balanced budgets annually. Areas of focus in 2023 included performance of the crematorium and streetwise as in-house service; and areas of risk and opportunity such as investment returns and that income levels are maintained given the impact of the cost-of-living crisis on individuals disposable income and therefore their ability to spend on Council services. In terms of expenditure the impact of inflation on both revenue and capital budgets continues to be monitored.

The Council continues to promote a commercial culture, although the Council has taken the strategic decision to realign its financial commitments focusing on investment in significant assets such as the Bingham Leisure Hub and the Crematorium and no longer investing in commercial assets for a financial return. The Council's Capital and Investment Strategy incorporates reporting on existing commercial investments. Over the term of the MTFS, the income generated from such investments is estimated to rise from circa £1.9m (2024/25) to £2m (2028/29) and performance is reported to Governance Scrutiny Group throughout the year. The Council no longer invests in assets specifically for a commercial return.

2.3 The Constitution

Principle A - *Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law*

A comprehensive document detailing the Council's constitution clearly sets out the defined structure for the Council's organisational arrangements based upon a cabinet executive model. In essence, the different roles can be summarised as follows:

- Council decides upon certain policies and other specialist functions that cannot be delegated elsewhere, including the setting of the council tax;
- Cabinet is allocated authority by Council to take executive decisions and approve policies not reserved for consideration by Council. Cabinet and Council works to a Forward Plan of forthcoming decisions for up to three months ahead;
- The work of Cabinet has been supported by four scrutiny groups. The Council now has a Corporate Overview Group, which manages corporate performance and financial control as well as the work programmes for the three additional scrutiny groups of Governance, Growth and Development, and Communities;
- Separate committees exist for Standards, Planning, Employment Appeals, Licensing, and Interviewing; and
- Delegation arrangements to officers are set out in detail within the Constitution.

The Constitution also provides detailed guidance on standing orders, financial regulations and the conduct of meetings. In addition, it contains codes of conduct applying to members and officers as well as a protocol for councillor/officer relationships. The codes include reference to the need to declare any interests which may conflict with the individual's role at the Council. The registers for councillors and officers are maintained by the Council's Monitoring Officer and the Strategic Human Resources Manager respectively. The Council has in place a confidential reporting code (whistleblowing policy) and any referrals under the policy are investigated.

The Constitution, as a whole, is reviewed when necessary and appropriate. The last review was in July 2023 and a further review is planned in 2024 reflecting procurement legislation changes.

2.4 Policies, Procedures, Laws and Regulations

The Council has three statutory officer roles: the Head of Paid Service, the Section 151 Officer, and the Monitoring Officer. The Chief Executive is the Head of Paid Service and has overall corporate management and operational responsibility including overall management responsibility for all officers. The Chief Executive has the special responsibility to report if insufficient resources are available for the Council to discharge its legal duties. The Monitoring Officer ensures lawfulness and fairness in decision making and ensures the Constitution is current.

The Section 151 Officer is specifically responsible for the proper discharge of financial arrangements and must advise the Council where any proposal might be unlawful or where expenditure is likely to exceed resources.

The Council's financial management arrangements should conform with the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2010). During 2023/24, the Council's financial management arrangements complied in all respects with the governance requirements of the aforementioned statement, in particular:

- During 2023/24, the Director Finance and Corporate Services held the post of Chief Finance Officer. The post holder is a professionally qualified accountant with direct access to the Chief Executive, Leader of the Council and other Cabinet members. The post holder also has direct access to the Governance Scrutiny Group and the Council's internal and external auditors.
- The Chief Finance Officer has a line of professional accountability for all finance staff and for ensuring that the finance function is 'fit for purpose'. The Council has established robust arrangements to manage its finances, including a Medium-Term Financial Strategy, annual budget process and compliance with CIPFA's Codes and Guidance on the Prudential Framework for Capital Finance, Treasury Management and the management of reserves.
- Internal audit services are provided to the Council by BDO. The effectiveness of this service is monitored by the Governance Scrutiny Group.
- The Chief Executive and three Directors are responsible for ensuring that legislation and policy relating to service delivery and health and safety are implemented in practice. Oversight of these arrangements is provided by the Director Neighbourhoods.

2.5 Risk Management

Principle F – *Managing risks and performance through robust internal control and strong public financial management*

The Council's risk management arrangements are regularly reviewed. In the last twelve months, the Governance Scrutiny Group reviewed the Risk Register twice, in September 2023 and February 2024. At the last meeting in February there were 38 corporate risks and 27 operational risks on the risk register. In addition, there were 4 opportunity risks.

The Council also reports on risk as part of its reporting framework to Full Council, Cabinet and Scrutiny.

Risk managers have worked to evaluate risk descriptions as proposed by Zurich in the Risk Health Check in 2020. This work is complete, and the exercise resulted in new risks being identified and old risks being removed and reported and agreed by Governance Scrutiny Group. The next report in autumn 2024 will contain the new risks and reworded risk descriptions, building on the Council's focus to address the ongoing impact of the cost-of-living and inflationary pressures, compounded by national living wage increases and pay negotiations.

2.6 Development and training needs

Principle E – *Developing the council's capacity including the capability of council leadership and staff*

The Council has a cross party Member Development Group (MDG) to oversee the development and delivery of Councillor learning and training. This Group meets to

review the delivery of the annual training programme and looks at the Councillors' Community Grant Scheme before each election.

Learning and Development is an essential part of being a Councillor. The Council adopted a Councillors' Learning and Development Policy in July 2021, and the Councillor Induction Programme is a vital element of that Policy.

The Induction Programme consisted of an Induction Handbook, three targeted sessions over the ten days following the Borough Elections in May 2023, together with details of an extensive training programme for the year, which was delivered in-person, virtually and via the Council's e-learning platform.

A number of topics were mandatory to allow Councillors to be able to sit on committees, including planning, licensing and standards, together with courses on GDPR, understanding local government finance, risk management, motions at Council and scrutiny. Councillor Individual Training Records continue to be updated and periodically sent to each Councillor for their information.

During 2023/24, the MDG met twice to evaluate the Induction Programme, the training programme for the year and the development of the programme for 2024/25.

The identification and delivery of appropriate training for officers is overseen by the whole of the Executive Management Team who ensure that organisational Learning and Development Plans linking to individual annual Performance Development Reviews are effectively managed and delivered. The Council recognises the importance of training to its workforce.

2.7 Communication

Principle B - *Ensuring openness and comprehensive stakeholder engagement*

Rushcliffe Reports magazine – the Council's newsletter for residents – was circulated to over 52,000 households on two occasions and a digital update to the growing online audiences, setting out key updates on a new leisure centre opening, popular music, food and children's events and request feedback on the Corporate Strategy and its priorities.

Further projects including a refreshed Communication and Engagement Strategy are responding to the evolving to picture building on the three yearly resident's survey feedback received in 2021, particularly across the Council's digital channels to build on 84% of respondents being satisfied, or very satisfied, with their local area as a place to live, 2% higher than the Local Government Association national survey.

In a more hybrid and digital driven era, the Council has continued strong regular updates through developing effective relationships with the local media matched with tailoring relatable content on its social media channels to its key demographics to engage more subscribers across, passing 20,000 followers on all channels.

During 2023/24, the Council continued developing its electronic free subscription newsletter to stakeholders with the launch of a dedicated Garden Waste update to

service users, another communication method that now sees over 18,000 residents gardening hints, tips and updates on the service direct to their inbox.

Customer satisfaction surveys continued with key customer facing services such as the Home Alarms service. The latter received a 100% satisfaction rating from users for an eighth consecutive year. The feedback received from these exercises will continue to be used to improve services to all customers. 2.8

2.8 Partnerships

The Council has put in place strong governance arrangements around the major leisure services, garage services, and car parking contracts. We have also entered into a partnership to improve resilience surrounding procurement advice working with Nottinghamshire County Council. Work continues with regards to the Freeport with the Leader of the Council sitting on the Board for the Freeport.

Ratcliffe on Soar Power Station is due to be decommissioned by 2025. This could have a significant impact on the Borough both financially (loss of business rates) and with the potential to have a very large derelict site at the entrance to the Borough from the A453. The role of the Freeport is critical with regards to this key gateway into the Borough. The East Midlands Freeport was approved by the Government on 30 March 2023. It will receive up to £25million in seed funding from the government to help drive investment in local businesses. The Freeport presents great opportunities for a world-class green and blue environmental investment programme with research and development in climate change and zero carbon technology and will enable employment opportunities and infrastructure investment.

The Chief Executive of the Council is a Director of the Development Corporation (DevCo) an interim vehicle to help deliver development of the power station site. The Council has committed £0.5m (an earmarked reserve) to support the Development Corporation with contributions from North West Leicestershire, Broxtowe Leicestershire and Nottinghamshire councils. The Leader sits on the Oversight Authority.

The Council is involved in the Devolution Deal proposals with other Derbyshire and Nottinghamshire authorities. With the East Midlands Mayor now in situ, from May 2024. Current proposals would still mean Rushcliffe as a Borough will retain its sovereignty, although there is a clear direction of travel for Councils to work more collaboratively for the benefit of their local communities.

2.9 Transparency

Principle G – *Implementing good practice in transparency, reporting and audit to deliver effective accountability*

All reports to meetings of Council, Cabinet, Scrutiny Groups and other committees are publicly available on the Council's website. Minutes are also published providing a record of the meeting and any decisions taken, and the Council provides public access to audio and video recordings of meetings. Other forms of public accountability

reporting include the Annual Statement of Accounts, the Council's Annual Report and in-year financial and performance monitoring reports which are reported to the Governance Scrutiny Group and Corporate Overview Group respectively. Reports from the Council's internal auditors (BDO) and external auditors (Mazars) are published online, including their annual reports.

The Corporate Overview Group monitor performance against targets on a quarterly basis. BDO are compliant with the requirements of the Public Sector Internal Audit Standards and has direct access to councillors and staff in order to discharge their duties.

The Council publishes information in accordance with the Local Authorities (Data Transparency) Code.

3 REVIEW OF EFFECTIVENESS

3.1 Introduction

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

3.2 The Council

The Council approves and keeps under regular review all the strategic policies which it reserves for its own consideration, including:

- The Constitution
- The Corporate Strategy
- The Capital Programme and Revenue Budget
- The Housing Strategy
- The Local Development Framework
- The Capital and Investment Strategy

3.3 The Cabinet

The Cabinet carries out the executive functions of the Council as required by the legislation and the Council's constitution. It accordingly:

- Takes key decisions
- Takes other executive decisions
- Approves policies other than those reserved for Council
- Recommends to Council policies and budgetary decisions.

3.4 Scrutiny groups - Governance Scrutiny Group

The Governance Scrutiny Group is charged with Governance and has a number of responsibilities including:

- Overseeing financial governance arrangements
- Overseeing strategic risk management
- Scrutinising the Annual Governance Statement
- Scrutinising the Statement of Accounts
- Reviewing the plans and work of Internal Audit
- Overseeing the review of the Constitution
- Receiving reports from external audit in relation to the audit arrangements
- Scrutinising the Going Concern report.

3.5 Other Scrutiny Groups

The Corporate Overview Group reviews the performance of the Council against the approved targets. Other reports are taken to this group and during the last year include the diversity annual report, annual customer survey and the health and safety reports.

In addition to the Corporate Overview Group and Governance Scrutiny Group, the Council has two other scrutiny groups. The first, Communities, looks at areas that affect the community, topics covered include are as diverse as East Midlands Airport, Social Housing Models, and Smoke Control Areas. The other group, Growth and Development, is tasked with looking at different aspects of growth within the Borough and has, this year for example, scrutinised reports in relation to Development and Infrastructure and Connectivity and Communications.

3.6 Directors

The Chief Executive and Directors are responsible for ensuring proper standards of internal control within their service areas. On-going reviews are undertaken throughout the year. At the end of the financial year, the Chief Executive and Directors are required to confirm that they have reviewed the system of internal control and identify any areas where improvements are necessary.

3.7 Internal Audit

Internal Audit is responsible for the review of the systems of internal control and for giving an opinion on both the corporate and service specific standards in place. BDO this year had their contract extended until 2027/28. An Audit Strategy has been developed covering all activities of the Council at a level and frequency determined using a risk management methodology.

An annual audit plan governs each year's activity and at the completion of each audit, a report is produced for management with recommendations for improvement. Regular reports covering internal audit activities are submitted to the Governance Scrutiny Group for scrutiny.

The Head of Internal Audit is required to provide an annual opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control, together with reasons if the opinion is unfavourable.

At the time of writing, we are awaiting the Internal Audit report.

3.8 External Audit

The external auditors, Mazars, review the Council's arrangements for:

- Preparing accounts in compliance with statutory and other relevant requirements;

- Ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- Managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors give an opinion on the Council's accounts, corporate governance and performance management arrangements. The Council takes appropriate action where improvements need to be made. Mazars issued an unqualified audit opinion, expressing the view that the financial statements give a true and fair reflection of the financial position of the Authority, and of its expenditure and income for the year. Whilst this was later than expected, with the accounts signed-off in December 2023 we are in a better position than many authorities with some several years behind regarding their financial statements being certified. We continue to work with the auditors to ensure the end of September deadline is met. A positive Value For Money conclusion was given by Mazars in their February report.

4 IMPORTANT GOVERNANCE ISSUES

4.1 Issues Identified, Budget and Ongoing Pressures and Inflation, the Peer Review, the CIPFA Financial Management Code, and other issues and proposed remedial action

Current budget position

2023/24 and 2024/25 budgets are again under pressure due to expenditure pressures in relation to energy and pay inflation. We are anticipating budget efficiencies for 2023/24 of around £1.66m mainly due to additional business rates income. This is not unexpected and will meet service pressures such as in relation to the 'homes for Ukraine' scheme and 'safer streets' funding. There are also anticipated additional pressures in relation to Finance and income System replacement and a commitment to increase the Climate Change Reserve for bio-diversity net gain.

The CIPFA Financial Management Code

The Chartered Institute of Public Finance & Accountancy (CIPFA) introduced a new code, The Financial Management Code 2019 (FM Code), which sets the standards of financial management for local authorities.

As we said we would do, we have asked a neighbouring authority to review the Council's self-assessment and this assessment is given at Appendix A. The approach used is to give a RAG rating and has also been reviewed by the Council's Section 151 Officer. In summary, the findings of the current self-assessment against the Financial Management Standards gives a green rating against each standard.

The Peer Review and Other Issues

The Council had a Corporate Peer Review in early 2024. This was largely very positive with no significant issues identified. Recommendations were made and reported to Cabinet along with an Action Plan and/or comments in relation to the recommendations. The Peer Challenge Team will be reviewing progress in relation to the Action Plan in the Autumn of 2024.

Given all of the challenges linked to rising inflation combined with medium-term uncertainty for example as a result of Business Rates and Fair Funding reviews, the Council has balanced its budget. However, there is the challenge of £1.25m of efficiencies to be identified over the next 2 years, taking into account the £1.7m efficiencies in the Transformation Programme. The Transformation Strategy and supporting Programme identifies the Council's approach to meeting its efficiency requirements and dovetails with the Council's Productivity Plan (an 'ask' regarding the 2024/25 financial settlement). Whilst the expectation is pay and utility inflation will reduce, the base budget is already substantially inflated. Pay inflation is linked largely to government policy on the national minimum living wage but also labour market pressures generally affecting recruitment. There is also a knock-on effect on supplies and service costs, and we are already aware of cost pressures arising above and beyond those already in the budget. Fortunately the Council's robust current financial position, at least in the short term, enables some mitigation regarding such cost pressures.

Going forward, there will also be service based pressures linked to statutory changes in relation to planning (Levelling-Up Act) and waste services (Simpler Recycling and the Environment Act) with details on guidance and funding being drip-fed from Government. This is a risk to both service provision and the budget going forward. The Council will, therefore, be making representation to relevant bodies and working with peers on how to mitigate this risk. Further information from Government is expected over the coming months.

The Council is still committed to having a commercial ethos and maximising value for money for the benefit of its residents. The Council has a range of income streams and manages such risks proportionately and sensibly. Under CIPFA guidance it cannot borrow to fund commercial activity.

The planned reviews of Business Rates and Fair Funding continue to be delayed. The current expectation is that they will be delayed until at least 2026/27, given the likelihood of a late General Election which creates more uncertainty regarding the timeliness of the 2025/26 financial settlement. New Homes Bonus has already been subject to consultation in 2021, as yet there has been no feedback from Government as to its future.

In the past we have referenced the risk of power station appeals. However given the reduction in business rates for the power station over time, the income has been eroded and its loss is now less of a risk. Business rates for the power station have reduced to around £0.8m (50% retained by central government) from £6m several years ago. The upside risk is that the Council's future exposure to a power station appeal will have a smaller impact and similarly when the power station is ultimately de-commissioned its financial impact will not be as greatly felt.

The external auditors have noted a number of risks in their Audit Strategy Memorandum 2023/24 (which are similar to their 2022/23 Memorandum), namely:

- Appropriate controls are in place to prevent 'management override';
- The completeness and accuracy regarding the Council's valuation of property, plant and equipment; and
- The Local Government Pension Scheme and the risk that the data is inaccurate and the impact of these inaccuracies on the financial accounts.

It is recognised that ICT threats and opportunities continue to evolve, it is imperative that the Borough Council has a clear understanding of how these impact on our day-to-day operations, particularly in the light of recent global cyber security threats. The Council continues to look at ensuring systems are hosted in 'the cloud' to mitigate such risks.

Despite the challenging economic environment, the Council remains committed to reducing its carbon footprint and continues to deliver excellent services. The Climate Change Reserve remains and with the challenge of delivering on bio diversity net gain targets and carbon offsetting, the Council continues to future proof this reserve to fund future initiatives.

Based on our review of the governance framework, the following significant issues will be addressed in 2023/24:

Issue	Reporting to	Methodology	Timescale
Monitor the delivery of the Transformation Strategy and ongoing budget position covering risks and opportunities arising from, for example, inflation, the new crematorium and Streetwise insourcing	Reports to EMT, Scrutiny and Cabinet	On-going financial reports	At least quarterly reporting
Monitor the delivery of the capital programme	Reports to Corporate Overview Group and Cabinet	On-going financial and performance reports	Quarterly
Monitor Business Rates, Fair Funding and New Homes Bonus developments	Reports to Cabinet and Full Council	Included as part of the Medium-Term Financial Strategy reporting; update to CGG as part of the AGS	By March 2025
Monitor the position with regards to significant external opportunities - Devolution, the Development Corporation and the Freeport	Reports to Cabinet and Full Council	On-going governance reports	By March 2025

5 STATEMENT OF THE CHIEF EXECUTIVE AND THE LEADER OF THE COUNCIL

We have been advised of the implications of the result of the review of the effectiveness of the governance framework by the Governance Scrutiny Group. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed, and those to be specifically addressed with new actions planned, are outlined above.

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

Signed

K Marriott (Chief Executive)



Date September 2024

Signed




Councillor N Clarke (Leader)

Date September 2024





Appendix A**Financial Management Code Review**

	Financial Management Standard	Evidence and Comments	Risk Rating
Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team			
Page 132	A	<p>The leadership team is able to demonstrate that the services provided by the authority provide value for money.</p> <p>Audit conclusion on 2022/23 accounts was the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023. General Fund reserve levels have been maintained above the minimum required level and the balance on other usable reserves is expected to reduce from £15m to £10m over the medium term. Despite inflation challenges excellent performance has been maintained (as per Finance and Performance reports) In year budgets 2023/24 are broadly on target. The Head Of Internal Audit's audit conclusion is taken into consideration and comments included in the AGS if necessary. We comply with the requirements of the code</p>	
	B	<p>The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.</p> <p>CFO is CIPFA qualified with 34 years of local government experience; and reports to CEO; CFO role detailed in the Constitution; CFO sits on Executive Management Team, influencing material decisions and ensuring financial implications are provided in all reports. The CFO leads on corporate fraud. Through the Finance team treasury performance is monitored and reported to Governance Scrutiny Group throughout the year.</p>	

Section 2: Governance and Financial Management Style

C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	BDO (internal audit report for 2022/23) The organisation has a substantial assurance framework for risk management, governance and internal control. Statement in the AGS in the STAC for 2022/23 demonstrating compliance. Accounts signed off by audit.	
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	The Governance Group scrutinise Constitution changes and reviews the adequacy of Governance arrangements, such as risk management and approving the Annual Governance Statement. The Head Of Internal Audit's audit conclusion is taken into consideration and comments included in the AGS if necessary.	
E	The financial management style of the authority supports financial sustainability.	The Council has developed a Transformation Programme and made in excess of £5m in budget efficiencies with a further £1.7m planned. The Council monitors its Transformation and Efficiency Plan as part of monthly budget monitoring but this is also reported to COG and Cabinet as part of quarterly performance indicators and financial monitoring. It maintains a portfolio of commercial assets that generates just under £3m of income receipts annually. There are a sustained level of reserves commensurate with its risk appetite.	

Section 3: Long to Medium-Term Financial Management

F	The authority has carried out a credible and transparent financial resilience assessment.	Budget setting for 2024/25 includes a statement from CFO that the estimates are robust. Budgets were set in conjunction with senior managers and members and appropriate challenge made. Budgets are balanced and reserves healthy and we have an achievable Transformation and efficiency plan monitored monthly. An independent review by consultants confirms the council has robust finances. Appendix A shows the 2021-22 CIPFA Resilience Index with relatively low risk. Independent benchmarking confirms this position. The Council has also participated in the LG Peer review in January 2024 and this concluded that the Council has a robust, current financial position, endorsed by its auditors. External and internal auditors were equally impressed with the Council's management of its finances and its responses to audit recommendations generally.	
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	We have a 5 year MTFS reported to Members and we have reported the authority's position as a Going Concern. The Risk Register is constantly evolving and is updated as new risks emerge. Horizon scanning and discussions at Risk Management Group ensure that wider risks are considered. During 2024, the Council has conducted a Fraud Risk Assessment that will be reviewed by the Council's internal auditors BDO.	
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	Capital Strategy shows that plans are affordable prudent and sustainable - all PI's are set and monitored, MRP is set to repay debt	
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	5 year MTFS in place, projects and outcomes linked to corporate plan and proposals are scrutinised against the corporate plan and these feed into the departmental service plans. The Council will aim to review its capital plans over a longer time period to ensure future budgets are robust.	

Section 4: The Annual Budget

J The authority complies with its statutory obligations in respect of the budget setting process.

The Council complies with its statutory obligations in respect of the budget setting process as set out in the Local Government Finance Act (1992). A legal and balanced budget and corresponding Council Tax levels have been set by Council by the statutory deadline of 11 March and assurance has been provided by the CFO regarding the robustness of estimates and adequacy of reserve levels.



K The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.


The budget setting report comments upon the expenditure plans, reserves and risk and includes a statement from the CFO giving a positive assurance that the budget is balanced, robust and affordable

**Section 5: Stakeholder Engagement and Business Plans**



L The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Budget was made available to residents via Cabinet agenda prior to approval at Council. The MTFS resources the corporate Strategy which has been out for consultation to the residents of the Borough. Elected members given the opportunity to scrutinise and comment upon. Member workshops involve members at budget setting. We consult with Stakeholders on key projects e.g. Bingham Car Parking and the Crematorium.



M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	For capital investment appraisals and business cases the Council uses the agreed approach outlined in the Capital and Treasury Strategy and are subject to approval by Asset Investment Group. Projects that do not satisfy the set criteria (Net Present Value, Internal Rate of Return and impact on the General Fund and assessment matrix of non-financial criteria) are not approved in their current form. Specific appraisals are reported to Governance Group. Financial comments are required on reports to highlight and demonstrate consideration of financial impact and allow scrutiny of, and challenge to the proposals. The Council considers the impact on the climate of any investment or development proposals and actively seeks to ensure these are positive for the environment such as the new Crematorium and improvements to its Leisure Centres.	
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Section 6: Monitoring Financial Performance

N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	Monthly reports are considered by budget holders, which is in turn reported to and scrutinised by Service Managers. Issues identified current concerns are reported to EMT. Quarterly Finance and performance reports are presented to Cabinet and COG. Reports include a section on financial implications, performance and risk. Monthly reports are sent to EMT on aged debt and outstanding items of concern. TM reports are taken quarterly and at year end to GSG and more detailed meetings are held monthly in the finance team. The finance officers involved in TM undertake regular training and treasury advisors deliver annual training for members	
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	EMT are actively involved in budget workshops which demonstrates the position on Revenue, Capital and Reserves and sit at Full Council when the budget is approved	

Section 7: External Financial Reporting

P	<p>The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.</p>	<p>The CFO’s responsibilities are set out in the “Statement of Responsibilities” within the STAC. This statement clearly sets out that the CFO is responsible for the preparation of the Council’s Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The annual audit letter confirms that the 2022/23 STAC has been prepared in accordance with the code.</p>
Q	<p>The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.</p>	<p>The outturn figures are reported to Cabinet and included in the narrative sections of the statement of accounts. Variances are clearly identified including highlighting those that are ‘accounting adjustments’. Use of underspends are clearly identified in the report, including carry forward requests and these are approved by Cabinet.</p>



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Rushcliffe
Borough Council

Governance Scrutiny Group

Thursday, 30 May 2024

Capital and Investment Strategy Outturn 2023/24

Report of the Director – Finance and Corporate Services

1 Purpose of report

- 1.1 The purpose of this report is to summarise the transactions undertaken during the 2023/24 financial year reporting against the Council's Capital and Investment Strategy 2023/24.
- 1.2 The report also provides information on the Council's commercial investment activity ensuring there is both transparency and scrutiny in terms of both treasury and asset investment decision making.

2 Recommendation

- 2.1 It is RECOMMENDED that the Governance Scrutiny Group considers and agrees the 2023/24 outturn position.

3 Reasons for Recommendation

- 3.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Finance in Local Authorities (the Prudential Code).

4 Supporting Information

TREASURY MANAGEMENT

Prudential Indicators Summary

- 4.1 During 2023/24, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year are as follows:

Table 1: Prudential and Treasury Indicators

	2022/23	2023/24	2023/24
Prudential and Treasury Indicators	Actual £'000	Estimate £'000	Actual £'000
Capital Expenditure	15,419	9,576	6,752
Capital Financing Requirement	13,266	12,605	9,889
Investments	(59,914)	(48,932)	(71,215)

- 4.2 The approved capital programme for 2023/24 was £9.576m, with £5.426m brought forward from 2022/23 less other budget adjustments of £2.540m during the year giving a total provision for the year of £12.462m. Actual expenditure against the approved programme was £6.752m giving rise to a variance of £5.710m. Carry forwards of £4.168m have been requested to Cabinet as part of the Final Outturn Report.

Capital Expenditure and Financing

- 4.3 The Council undertakes capital expenditure on both its own long-term assets and on grants that can be capitalised under statute (capital payments to third parties). These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) which has no resulting impact upon the Council's borrowing need; or
 - If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 4.4 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed:

Table 2 Capital Expenditure and Financing

	2022/23	2023/24	2023/24
Capital Expenditure and Financing	Actual £'000	Estimate £'000	Actual £'000
Capital Expenditure	15,419	9,576	6,752
Less Financed by:			
Capital Receipts	(4,386)	(3,387)	(3,026)
Capital Grants	(2,790)	(3,739)	(3,042)
Reserves	(1,243)	(1,450)	(684)
Increase in borrowing need	7,000	1,000	0

All of the expenditure can be financed from the Council's capital resources and internal borrowing mitigating the need to externally borrow.

The Council's Overall Borrowing Need

- 4.5 The Council's underlying need to borrow for capital expenditure is called the Capital Financing Requirement (CFR). The CFR represents the net capital expenditure in

2023/24 and prior years that has not yet been paid for by revenue or other resources.

- 4.6 Part of the Council's Treasury Management activity is to organise the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be through utilising temporary cash resources within the Council (internal borrowing) or sourced through borrowing from external bodies, for example, the Public Works Loan Board (PWLB).
- 4.7 Where a positive CFR exists, the Council is required, by statute, to make an annual charge called the Minimum Revenue Provision (MRP) to reduce the CFR based on the life of the relevant assets. This provision effectively raises cash to either help repay loans or replenish internal borrowing.
- 4.8 The total CFR can be reduced by:
- The application of additional resources (such as unapplied capital receipts); or
 - Charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP).
- 4.9 In 2017/18 the Council decided to set the MRP at £1m. This comprised £0.250m MRP to finance the Arena based on £10m borrowing over a 40-year life. A further £0.750m was provided by way of VRP to meet the Council's commitment to repay the borrowing early. The Council has been releasing an equivalent sum (approximately £1m) from the New Homes Bonus (NHB) Reserve to offset any impact of the borrowing charge to the taxpayer in-year. This practice will continue although, with new schemes increasing borrowing requirements, the amount of MRP will increase until the Arena is repaid in full in 2026-27 then MRP will fall and VRP will stop.
- 4.10 The Council's CFR for 2023/24 represents a key prudential indicator and is shown below. The table shows additional internal borrowing was needed in 2023/24 giving a closing balance of £9.889m after deducting the MRP of £1.255m and £2.122 applied capital receipts and S106 funding in 2023/24.

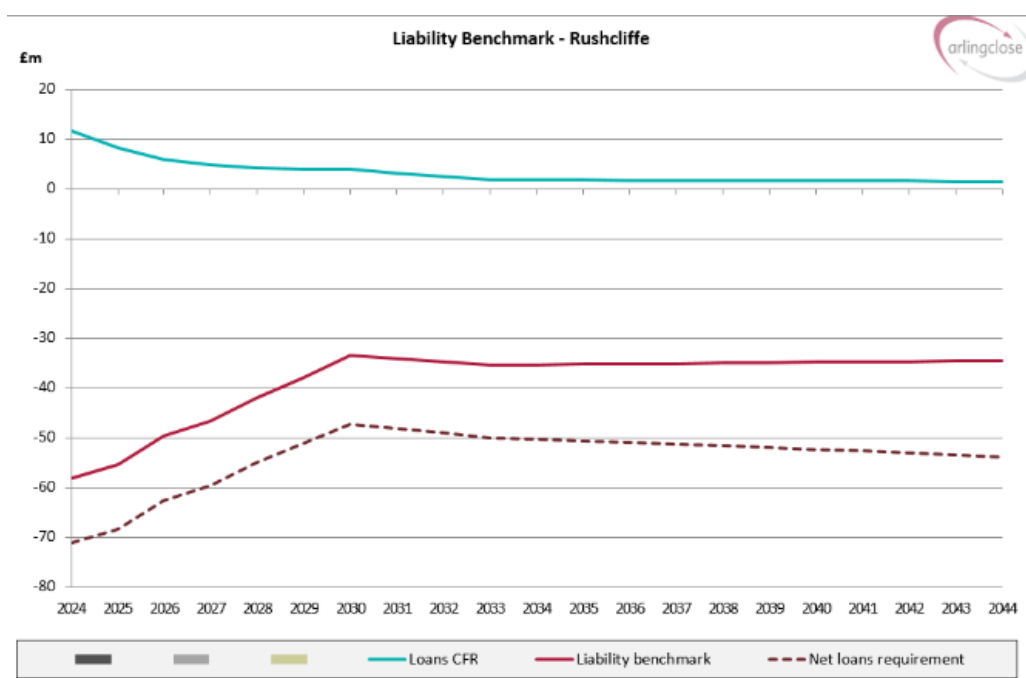
Table 3 Capital Financing Requirement

Capital Financing Requirement (CFR)	2022/23 Actual £'000	2023/24 Actual £'000
Opening Balance	7,283	13,266
Add: unfinanced capital expenditure	7,000	0
Less MRP/VRP	(1,017)	(1,255)
Less applied Capital Receipts and S106	0	(2,122)
Closing Balance	13,266	9,889

Net Borrowing, CFR, Authorised Limit and Operational Boundary

- 4.11 The borrowing activity is normally constrained by prudential indicators for net borrowing, the CFR and by the Authorised Limit for external debt.
- 4.12 The authorised limit is the “affordable borrowing limit” required by section 3 (1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited and was set at £25m in the 2023/24 Strategy.
- 4.13 As the Council had no recourse to borrow externally during 2023/24 these indicators are not applicable.
- 4.14 Similarly, the Council is required to set an operational boundary, which is the expected borrowing position of the Council during the course of the year. The operational boundary is not a limit and actual borrowing can be either below or over the boundary subject to the authorised limit not being breached. The Operational Boundary was set at £20m in case any borrowing is required in emergency circumstances. The Authorised limit of £25m gives room for any variations from this. Any borrowing in excess of this would require Full Council approval.
- 4.15 The Liability (or Asset) Benchmark reflects the real need to borrow and is shown graphically (Chart 2). The Council’s CFR is reducing due to MRP repayments, reserves are being used to fund future capital expenditure and working capital/S106 monies are returning to a normal level. The Liability Benchmark shows the Council has no need to borrow over the medium term.

Chart 2 Liability Benchmark



The Ratio of Financing Costs to Net Revenue Streams

- 4.16 This is an indicator of affordability and compares net financing costs (MRP, borrowing costs, less investment income) to net revenue income. This indicator shows how the proportion of net income used to pay for financing costs. The actual is minus figure as a result of income from investments higher than budget due to interest rates throughout the year remaining above expectations at the time of budgeting and this exceeding MRP payments and higher cash balances (as can be seen with higher investments in the earlier Table 1).

Table 4 Ratio of Financing Costs to Net Revenue Stream

Ratio of Financing costs to net revenue stream	2022/23 Actual £'000	2023/24 Estimate £'000	2023/24 Actual £'000
Net Financing Costs	-66	-66	-633
Net Revenue Stream	10,544	14,406	15,754
Ratio	-0.63%	-0.46%	-4.02%

- 4.17 Net income from commercial and service investments is expressed as a percentage of net revenue streams. 2023/24 was slightly lower than estimated due to net revenue streams being higher due to higher than expected specific Grant Income and Business Rates.

Table 5 Net Income to Net Revenue Stream

Net Income to Net Revenue Stream	2023/24 Estimate £'000	2023/24 Actual £'000
Net Income from commercial and service investments	1,695	1,781
Net Revenue Stream	14,406	15,754
Percentage	11.8%	11.3%

Upper Limits for Fixed and Variable Rate Exposure

- 4.18 The purpose of these indicators is to allow the Council to manage the extent to which it is exposed to changes in interest rates. Exposure is currently 44% for Fixed Rate and 56% for Variable, both within limit.

Table 6 Upper Limits for Fixed and Variable Rate Exposures

Upper Limits for Fixed and Variable Rate Exposures	2023/24 Estimate £'000	2023/24 Actual £'000
Fixed Interest Rate limit	50%	44%
Variable Interest Rate limit	100%	56%

Upper Limit for Total Principal Sums invested over 1 year

- 4.19 This limit is intended to contain the exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. If an investment had to be repaid before its natural maturity date due to cash flow requirements, then, if market conditions were unfavourable, there would be an adverse impact on the Council.

Table 7 Upper Limit for Total Principal Sums invested over 1 year

Upper Limit for Total Principal Sums Invested over one year	2023/24 Estimated £'000	2023/24 Actual £'000
Total Investment balance	48,932	71,215
Limit (50% of total investment)	24,466	35,608
Sums invested over one year	0	0

Treasury Position on 31 March 2024

- 4.20 The Council's debt and investment position is managed by the Treasury team to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all Treasury Management activities in line with the approved treasury strategy. Procedures and controls to achieve these objectives

are established through reports to Members via the Governance Scrutiny Group and reporting and through officer activity detailed in the Council's Treasury Management Practices. The following table details the Counterparties that the Council had placed investments with at the end of 2023/24.

Table 8 Treasury Position on 31 March 2024

Financial Institution	Amount Invested £	Length of Investment	Interest Rate
Standard Chartered	3,000,000	183 days	5.50%
Standard Chartered	3,000,000	183 days	5.43%
HSBC ESG	5,308,850	Call	5.23%
Rushmoor Borough Council	5,000,000	364 days	4.50%
Moray Council	5,000,000	365 days	5.00%
North Lanarkshire	5,000,000	365 days	5.00%
Central Bedfordshire Council	5,000,000	30 Days	5.52%
Stockport Metro Borough Council	5,000,000	126 Days	5.50%
Aviva Investors	225	Call	5.17%
Blackrock	457,924	Call	5.24%
Ccla - Psdf	139,776	Call	5.26%
Federated Investors (Uk)	5,367,640	Call	5.29%
Goldman Sachs Asset Management	267,480	Call	5.14%
Handelsbanken Plc	12,052	Call	0.25%
Hsbc Asset Management	334,164	Call	0.50%
Invesco Aim	7,643,565	Call	5.26%
Aberdeen Asset Management	1,306,864	Call	5.26%
Bank Of Scotland Plc	892	Call	0.01%
Bank Of Scotland Plc	113,150	32 Days	3.75%
Barclays Bank Plc	6,733	Call	2.00%
Barclays Bank Plc	4,668,026	32 Days	5.20%
Handelsbanken Plc	12,511	35 Days	2.75%
Santander Uk Plc	450,322	Call	3.23%
Santander Uk Plc	86,559	35 Days	4.78%
Royal London Cash Plus Fund	1,005,085	On-going	3.96%
Ccla Property Fund	1,970,157	On-going	4.36%
Ccla Diversified Income Fund	1,929,604	On-going	3.25%
Aegon Diversified Income Fund	4,597,766	On-going	6.80%
Ninety One Diversified Income Fund	4,535,612	On-going	6.20%
Average Interest Rate			5.24%
Total	71,214,957		

The Strategy for 2023/24

- 4.21 The expectation, within the strategy for 2023/24, was that there would be a stepped increase with interest rates peaking at 4.5% in June 2023 before starting to tail off from December 2023 dropping to 4.0% in March 2024. However, in an effort to bring down inflation the Monetary Policy Committee has maintained a regular increase in base rates. At its May meeting interest rates were raised by 0.25% to 4.5% and again by 0.5% to 5% on 22 June. The base rate today currently stands at 5.25% following a vote to raise from 5% on 3 August 2023 and voting to maintain at this level at their remaining meetings in 2023/24. The Council continued with the prudent

investment of the treasury balances to achieve the objectives of security of capital and liquidity of its investments, whilst achieving the optimum return on investments. Council's investments were where possible placed in short-term liquid assets to benefit from increasing rates. Generally, short term investment options have returned rates in line with BoE base rate and have at times yielded a better return than longer term investment options. Notwithstanding that, the Council must invest some of its cash longer term so as to spread risk in line with the strategy.

Investment Rates and Outturn Position in 2023/24

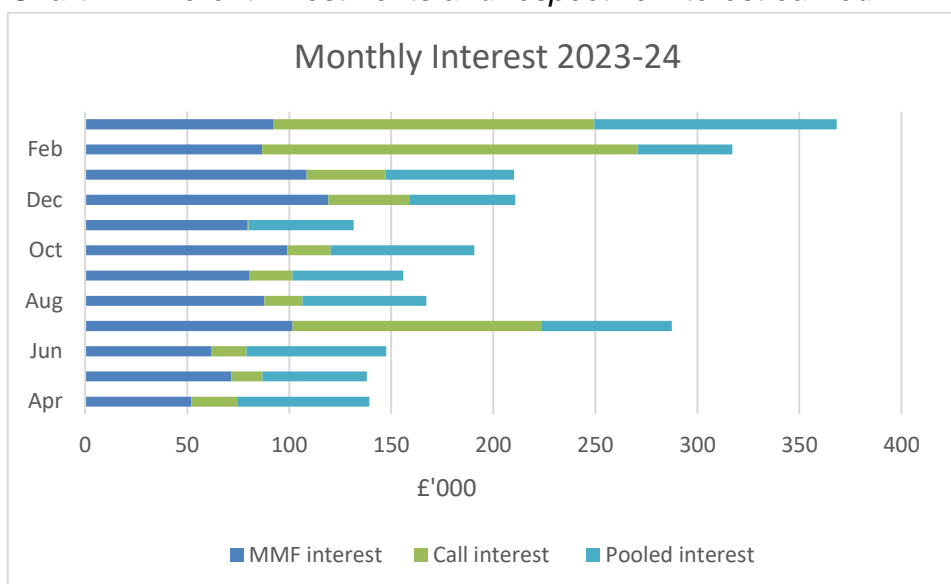
- 4.22 Whilst the Council continues to ensure investments are secure, the Council is proactively looking to maximise its rate of return. The overall rate of return on investments for the year was 5.24% compared with the budgeted rate of 4.50%, and an actual rate of 3.79% in 2022/23. As well as elevated interest rates, additional S106 monies and underspends on the capital programme resulted in an increase in the amounts available to be invested resulting in a net return on investments of £1,887,600 against a budget of £1,359,300.
- 4.23 The fair value of the Council's diversified funds can fluctuate. During the year the value increased by £0.272m. Whilst this is an improvement, the overall difference from the initial investment is £0.961m. To mitigate this loss, appropriations have been made to a reserve and the balance currently stands at £1.173m to cushion any adverse fluctuations. There is currently a statutory override, effective to 31 March 2025, which prevents any accounting loss impacting on the revenue accounts.

Table 9 Fair Value of diversified (pooled) funds at 31.3.24

Fair Value	Amount Invested				Difference in valuation from initial
		31/03/2023	31/03/2024	Difference	
Aegon	5,000,000	4,364,956	4,597,766	232,810	(402,234)
Ninety One	5,000,000	4,559,707	4,535,612	(24,094)	(464,388)
RLAM	1,000,000	983,676	1,005,085	21,409	5,085
CCLA Property	2,000,000	2,018,374	1,970,157	(48,217)	(29,843)
CCLA BWCF	2,000,000	1,839,164	1,929,604	90,440	(70,396)
Total	15,000,000	13,765,876	14,038,224	272,348	(961,776)

- 4.24 Although the Council's diversified funds are subject to fluctuations in capital value, they provide exceptional returns into the revenue accounts. The graph below shows monthly returns from different accounts. As interest rates have been particularly high in 2023/24, Money Market Funds at 5.06% have returned only marginally less than the diversified funds at 5.45%. It should be noted that the balance invested in Money Markets fluctuates month by month.

Chart 1 -Different investments and respective interest earned



- 4.25 The Council's investment policy is governed by the annual Capital and Investment Strategy approved by Council on 2 March 2023 (and prior to this approved by the Governance Scrutiny Group on 23 Feb 2023). This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, for example, rating outlooks and credit default swaps information. The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- 4.26 The Council's longer-term cash balances comprise primarily revenue and capital resources, although these will be influenced by cash flow considerations and the need for working balances and contingencies. The Council's core cash resources are detailed in the following table. The Council continues to face financial challenges and although reserve levels are predicted to decline over the medium term, they are maintained at a healthy level sufficient to support against risk and uncertainties and continue to deliver the capital programme. There has been a net transfer to earmarked reserves of £1.274m. The most significant transfers to reserves were a net £626k to the organisation stabilisation reserve from revenue underspends and £375k to the Investment Property Sinking Fund. The movement from reserves comprises a few balances use of Vehicle Replacement Reserve £300k; release from Collection Fund Reserve £353k. There is an increase in usable capital receipts. These will be used to fund deferred schemes in the capital programme.

Table 10 Balance Sheet Resources

Balance Sheet Resources	Balance at 31/03/2023 £'000	Balance at 31/03/2024 £'000
General Fund Balance	2,604	2,604
Earmarked Reserves	19,673	20,947
Usable Capital Receipts	1,085	3,422
Capital Grants Unapplied	154	98
Total	23,516	27,071

Conclusion – Treasury Management

- 4.27 Overall, the Council has been successful in achieving its objectives in line with the Strategy of ensuring security of its investments; ensuring there was sufficient liquidity to operate efficiently and enable the delivery of objectives; and achieve a yield on investment returns given the constraints placed upon the Council (in terms of both financial market risks and the need to retain liquidity and protect capital). The Council continues to pursue Environmental Social and Governance (ESG) investments where these satisfy the principles of security and liquidity but it is still an emerging market and therefore the risks need to be carefully balanced. Whilst inflation has been on a downward trend during 2023/24, it is still well above the BoE target of 2% and means that there may not be as rapid a decline in interest rates as expected. Coupled with the troubles in the Middle East, and a mild recession in the second half of last year, the economy looks set to remain unstable. We will continue to monitor the position closely.

ASSET INVESTMENT STRATEGY

Overview

- 4.28 Guidance on Treasury Management activity focuses on the role of longer-term investments specifically held to make a commercial return. The Prudential Code includes the principle that the purchase of commercial property purely for profit cannot lead to an increased capital financing requirement (see paragraph 3.1). The Council no longer invests in property for commercial gain.
- 4.29 This section of the report reviews the position of existing commercial investments.

Investments 2023/24

- 4.30 2023/24 remained an uncertain year with pending general election, mild recession, elevated inflation and high interest rates all impacting on the economy.

Current Position

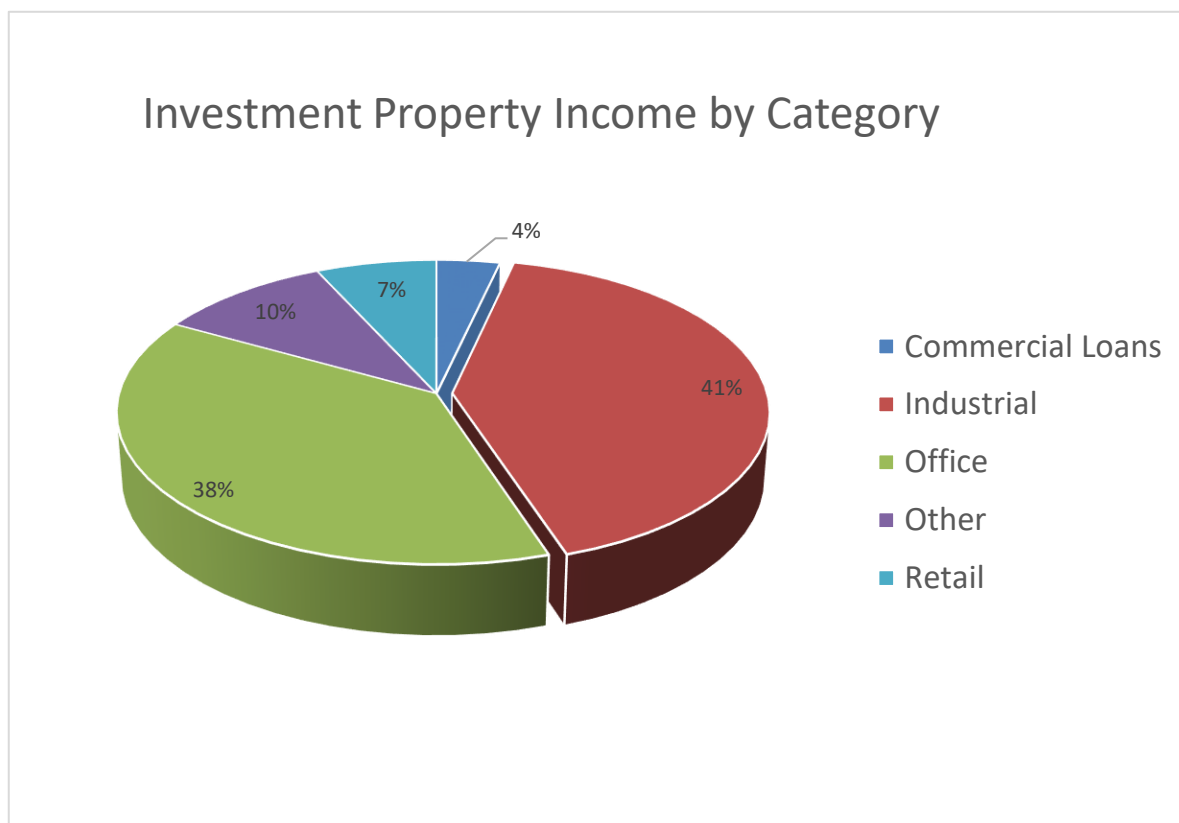
- 4.31 The table below shows the returns being made on previous acquisitions from the Asset Investment Strategy. 2023/24 showed a return of 5.92% compared with 5.41% in 2022/23.

Table 12 AIS investment returns 2023/24

Investment Value £	Gross Return	Investment	2022/23 Actual £	2023/24 Actual £
1,964,500	3.64%	NCC Loan (interest)	72,810	71,468
1,477,500	5.21%	Trent Boulevard (Co-Op)	72,540	77,021
984,000	7.85%	Finch Close	66,504	77,195
1,917,000	7.41%	Bardon	137,841	142,000
2,500,000	7.09%	Cotgrave Offices	46,564	45,364
		and Cotgrave Industrial Units	130,387	131,934
860,000	6.78%	Boundary Court	61,035	58,300
1,900,000	4.47%	Cotgrave Phase 2	78,633	84,885
2,450,790	5.58%	Unit 3 Edwalton Business Park	136,850	136,850
2,083,364	5.28%	Unit 1 Edwalton Business Park	110,000	110,000
16,137,154	5.92%	Total	913,164	935,017

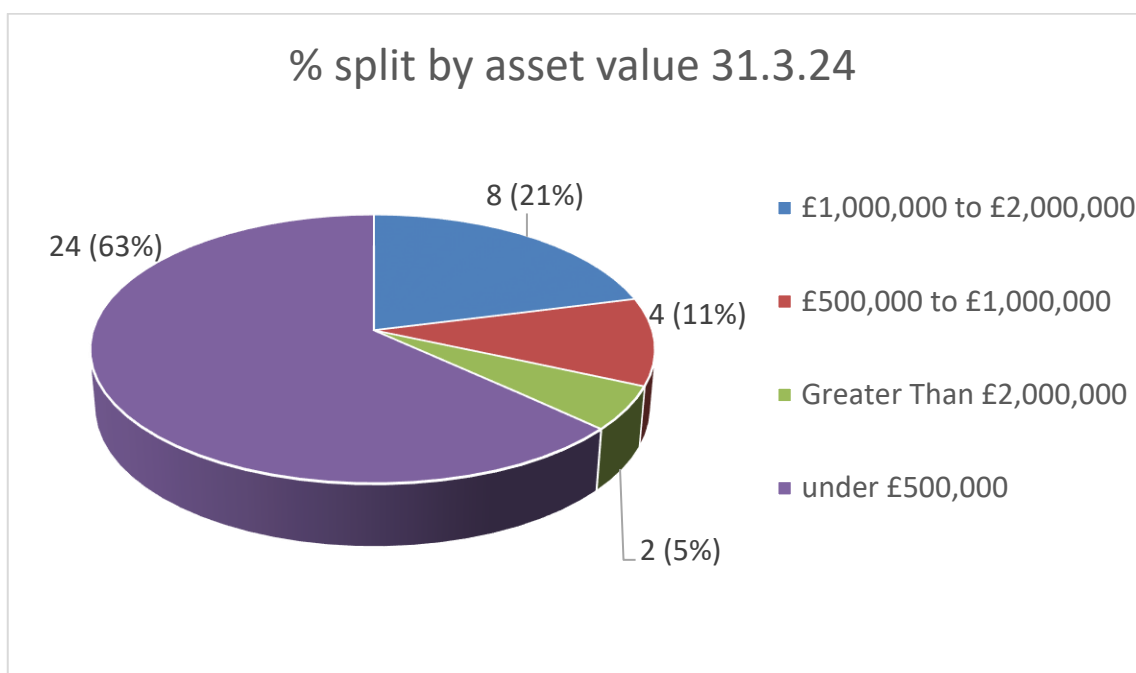
- 4.32 If we look at the Council's investment property portfolio there is a good spread of risk (classified by the rental earned) as depicted below:

Chart 2 – Investment Property Income by Category



- 4.33 Chart 3 below shows the Council's overall property portfolio classified by asset value and number of investments

Chart 3 percentage split of overall property portfolio by asset value



- 4.34 Many of the Council's investments have been in industrial units (given its focus on economic regeneration) and in offices and these have been very successful. Further diversification of investments mitigates the risk of income payment default.
- 4.35 In terms of risk in relation to the Council's budget, the following table demonstrates that whilst property income is important for the Council's budget, there is not an over emphasis upon property income and there are other income streams. This is in keeping with the Council's Treasury Management Strategy where the objective is that the ratio of investment income as a proportion of the council's income does not exceed 30%. The actual for the current year is well within this range.

Commercial Investment income and costs

Table 13 Commercial Investment income and costs

Commercial Investments	2023/24 Estimate £'000	2023/24 Actual £'000
Commercial Property Income	(1,832)	(1,918)
Running Costs	480	443
Net contribution to core functions	(1,352)	(1,475)
Interest from Commercial Loans	(67)	(71)
Total Contribution	(1,419)	(1,546)
Total Income	(10,117)	(10,725)
Investment Income as a % of total Council income	18.8%	18.5%
Sensitivity +/- 1% income	(183)	(192)

The Way Forward

- 4.36 The Council's original intention was to look at generating around £1m of additional property rental income to help bridge the anticipated budget deficit. Recent changes regarding PWLB lending terms prevent Local Authorities from borrowing if they have any commercial activity in their MTFS. Investment income as a result of the Asset Investment Strategy (AIS) will reach it's full year effect in 2026/27 with further increases relating only to rent increases rather than in growth of the portfolio from acquisitions.

Member and Officer Training

- 4.37 The TM Code requires Local Authorities to document a formal and comprehensive knowledge and skills schedule reflecting the need to ensure that both members officers dealing with treasury management are trained and kept up to date. This will require a suitable training process for members and officers. There will be specific training for members involved in scrutiny and broader training for members who sit on full Council. Previously these needs have been reported through the Member Development Group, with the Council specifically addressing this important issue by:
- Periodically facilitating workshops for members on finance issues most recently provided in January 2024
 - Interim reporting and advising members of Treasury issues via Governance Scrutiny Group.

With regards to officers:

- Attendance at training events, seminars, and workshops; and
 - Support from the Council's treasury management advisors
 - Identifying officer training needs on treasury management related issues through the Performance Development and Review appraisal process.
- 4.38 Given the technical nature of the subject failure to attend relevant training sessions undermines the scrutiny process.
- 4.39 The Council will continue to have its Annual Treasury Management training session with Councillors provided by its Treasury advisers.

Conclusion

- 4.40 The position on all Council investments, whether treasury or commercial investments, remains fluid. Clearly risks remain in the treasury markets, the property market and also with the Council's Capital Programme. The economy, monetary measures and the future remain uncertain and will be monitored closely. A quarterly update will be presented to this group showing the position for the first quarter of 2024/25.

5 Risk and Uncertainties

- 5.1 The report covers many treasury risks including counterparty, interest rate risk, changes in fair value and also property risks both unique to individual properties and the wider strategic view of property. The Council is mindful that it is important that it continues to mitigate risk by having a diversified asset investment portfolio and other income streams, so it is not over reliant on property income (paragraphs 4.28-4.32).

6 Implications

6.1 Financial Implications

Financial implications are covered in the body of the report.

6.2 Legal Implications

This reports supports compliance with the Local Government Act 2003.

6.3 Equalities Implications

None.

6.4 Section 17 of the Crime and Disorder Act 1998 Implications

None.

6.5 Biodiversity Net Gain Implications

None.

7. Link to Corporate Priorities

Quality of Life	Efficient and effective treasury and asset investment management supports all of the Council's corporate priorities
Efficient Services	
Sustainable Growth	
The Environment	

8. Recommendations

- 8.1 It is RECOMMENDED that the Governance Scrutiny Group considers and agrees the 2023/24 outturn position.

For more information contact:	Name; Peter Linfield Director – Finance and Corporate Services 0115 914 8439 email plinfield@rushcliffe.gov.uk
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Background papers Available for Inspection:	Statement of Accounts 2023/24; Capital and Investment Strategy 2023/24; Treasury Management Update – Mid-Year Report 2023/24 and quarters 1 and 3 Reports 2023/24
List of appendices (if any):	Appendix 1 - Glossary of Terms

Glossary of Terms

BoE – Bank of England

CCLA Property Fund - this a local authority property investment fund. The property fund is designed to achieve long term capital growth and a rising income from investments in the commercial property sector.

Covered Bonds – these investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in.

ESG – stands for environmental, social, and governance and refers to how companies score on these responsibility metrics. Environmental criteria gauge how a company safeguards the environment. Social criteria examine how it manages relationships with employees, suppliers, customers, and communities. Governance measures a company's leadership, executive pay, audits, internal controls, and shareholder rights.

LIBID – London Inter Bank Bid Rate. The rate at which banks are willing to borrow from other banks.

Money Market Funds – these funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks.

MRP – Minimum Revenue Provision – is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing. This is an annual revenue expense in a Council's budget.

Pooled Funds – shares in diversified investment vehicles consisting of different investment types including banks, equity shares and property, these funds have the advantage of providing wide diversification of investment risks.



Governance Scrutiny Group

Thursday, 30 May 2024

Work Programme

Report of the Director – Finance and Corporate Services

1. Summary

- 1.1. The work programmes for all Scrutiny Groups are created and managed by the Corporate Overview Group. This Group accepts and considers Scrutiny Matrices from both officers and councillors which propose items for scrutiny. If those items are accepted following discussion at Corporate Overview Group, they are placed on the work programme for one of the Council's Scrutiny Groups. In creating the work programme for the Governance Scrutiny Group due regard has been given to matters usually reported to the Group, the resources available for scrutiny, and the timing of issues to ensure best fit within the Council's decision-making process.
- 1.2. The work programme is provided in this report for information only so that the Group is aware of the proposed agenda for the next meeting. The work programme does not take into account any items that need to be considered by the Group as special items. These may occur, for example, through changes required to the Constitution or financial regulations, which have an impact on the internal controls of the Council.

19 September 2024

- Internal Audit Progress Report Q1
- Risk Management Update
- Going Concern
- Capital and Investment Strategy Update Q1
- Work Programme

28 November 2024

- Internal Audit Progress Report Q2
- Annual Audit Completion Report 2023/24
- Statement of Accounts
- Capital and Investment Strategy Update Q2
- RIPA Review
- Work Programme

20 February 2024

- Internal Audit Progress Report Q3
- Internal Audit Strategy

- External Audit Plan (May slip to next meeting)
- Annual Audit Letter and VFM
- Risk Management Update
- Risk Management Strategy
- Capital and Investment Strategy Update Q3
- Capital and Investment Strategy 2025/26
- Work Programme

For more information contact:	Peter Linfield Director – Finance and Corporate Services 0115 914 8349 plinfield@rushcliffe.gov.uk
Background papers Available for Inspection:	None
List of appendices (if any):	None