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**AUDIT & ACCOUNTS COMMITTEE**

*Date of Meeting:* Wednesday 30 November 2016  
*Time:* 9:30 am  
*Venue:* G21, Kelham Hall

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Your ref:  
Our ref:

Monday 21 November 2016

**To: All Members of the Audit & Accounts Committee**

You are hereby requested to attend the above Meeting to be held at the time/place on the date mentioned above for the purpose of transacting the business on the Agenda as under.

A W Muter  
Chief Executive

**AGENDA**  
**WEDNESDAY 30 NOVEMBER 2016, 9:30am**

Item

- |     |   |       |
|-----|---|-------|
| 1.  | Apologies for Absence   |       |
| 2.  | Declarations of Interest by Members and Officers and as to the Party Whip |       |
| 3.  | Declaration of any Intentions to Record the Meeting                       |       |
| 4.  | Minutes of the Meeting held on 7 September 2016                           | 3-6   |
| 5.  | Treasury Management 2016/17 Mid Year report                               | 7-18  |
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| 13. | Date of Next Meeting- Wednesday, 8 February 2017 at 10am                  |       |

Any questions relating to the agenda items should be submitted to Nicky Lovely Business Manager & Chief Financial Officer - Financial Services, at least 24 hours prior to the meeting in order that a full response can be provided.

**Distribution**

Councillors: B. Crowe  
Mrs M. Dobson  
P. Handley  
Mrs S.M. Michael (C)  
Mrs P. Rainbow  
B. Wells

Officers: N. Lovely  
T. Beesley  
A. Hunt (Audit Lincs)  
Lucy Pledge (Audit Lincs)  
John Sketchley (Audit Lincs)  
Jon Gorrie (KPMG)  
Helen Brookes (KPMG)  
Helen Bayne (x2)

NEWARK & SHERWOOD DISTRICT COUNCIL

Minutes of the meeting of the **AUDIT & ACCOUNTS COMMITTEE** held in Room G21, Kelham Hall on Wednesday, 7 September 2016 at 10am.

PRESENT: Councillor Mrs S.M. Michael (Chairman)

Councillors: R.A. Crowe, G.P. Handley, P.J. Rainbow and D. Staples.

ALSO IN

ATTENDANCE: Nicky Lovely- (Business Manager and Chief Financial Officer- NSDC)  
Amanda Hunt (Principal Auditor (Assurance Lincolnshire))  
Nicola Pickavance (Assistant Business Manager- Financial Services NSDC)  
Lucy Pledge (Audit and Risk Manager (Head of Internal Audit) Assurance Lincolnshire)  
Jonathan Gorrie- Director KPMG  
Helen Brookes – Manager KPMG

11. APOLOGIES FOR ABSENCE

There were none.

12. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS AND AS TO THE PARTY WHIP

NOTED: that no Member or Officer declared any interest pursuant to any statutory requirement in any matter discussed or voted upon at the meeting.

13. DECLARATION OF ANY INTENTION TO RECORD THE MEETING

The Chairman informed the Committee that the Council was undertaking an audio recording of the meeting.

14. MINUTES OF MEETING HELD ON 13 JULY 2016

AGREED that the Minutes of the meeting held on 13 July 2016 be approved as a correct record and signed by the Chairman.

15. EXTERNAL AUDIT ANNUAL GOVERNANCE REPORT

Jonathan Gorrie and Helen Brookes drew Members' attention to the External Audit Governance Report which was presented to Members at the meeting as a late report. Mr Gorrie- Director KPMG began by thanking Officers for their co-operation in the production of the report, and informed members that it was anticipated that an unqualified opinion would be issued for the Authorities financial statements by 30 September 2016.

No material adjustments were required to the Statement of Accounts. Two other non-material adjustments were required and some small presentational changes. The non-material adjustments were detailed in the report.

Three key issues and associated recommendations had been included in the report, being: Accounts production process, Authorisation of Journals, and Provisions. These were all given level two recommendations, which did not require immediate actions. It was confirmed by officers that the accounts had been produced by 31 May this year in line with preparations for the new statutory deadline for future years' accounts.

The report identified three significant risks to the Authority and included findings of investigation into these areas which were: Business rate appeals, Fraud risk of revenue recognition and Management override of controls. It was noted by the Committee that these risks were common across all Local Authorities.

With regards to the Value for Money conclusion, the External Auditors had concluded that the Authority had proper arrangements in place to ensure it could provide value for money.

Finally, the audit fees were detailed within the report. It was noted that this year had, in addition, included a fee for work undertaken in relation to recovery of VAT work started in 2011.

AGREED that:

- (a) the Audit Committee receives the External Audit Annual Governance report for 2015/16;
- (b) the Committee notes the adjustments set out in the report; and
- (c) the letter of representation is signed by the Section 151 Officer, be approved.

#### 16. APPROVAL AND SIGNATURE OF STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT

The Assistant Business Manager- Financial Services presented the Statement of Accounts 2015-16 for approval in accordance with the Audit and Accounts Regulations 2015. The accounts were consolidated with finance data from the Council's subsidiary companies Newark and Sherwood Homes and Active4Today. Changes made to the accounts following the external audit were detailed in the covering report to Members, which detailed the two non-material errors in the balance sheet and one of which related to the Housing Revenue Account.

The Committee discussed a number of points in consideration of the accounts:

- The changes made to the Annual Governance Statement had been made as required by the External Auditors;
- The Assistant Business Manager explained that the Unusable reserves absorbed charges which could not be charged to the tax payer;
- The increased spend on cultural and heritage services was due to the revaluation of the National Civil war centre building. The decrease in the value of the building compared to the cost of renovation was charged to the Business Unit, but then reversed out; and
- Members suggested that more feedback to Committees throughout the year was

required to ensure that there were no large underspends. Officers explained that underspends were reviewed and if consistent underspends existed after three years the budget was not allocated again. Information on budget underspends was to be put onto the extranet so members could review them and any comments would be provided by the Business Manager. On this point, it was also important to take into account slippage of projects in the Capital Programme, which necessitated carry over of allocated budgets.

The Business Manager & Chief Financial Officer - Financial Services expressed her thanks to officers for producing the Statement of Accounts, which was echoed by all Members of the Committee.

AGREED that:

- (a) the Annual Governance Statement for the financial year ended 31 March 2016, be approved;
- (b) the Statement of Accounts for the financial year ended 31 March 2016 be approved; and
- (c) the Section 151 Officer and the Chairman sign the Letter of Representation, be approved.

17. INTERNAL AUDIT PROGRESS REPORT AND OUTSTANDING RECOMMENDATIONS BRIEFING PAPER

The Principle Auditor and the Audit and Risk Manager- Assurance Lincolnshire presented the Internal Audit Progress Report and also a report highlighting outstanding audit recommendations. The Committee considered the report, particularly noting that an audit undertaken into Payment Card Industry Data Security Standard had been issued with limited assurance. Recommended improvements were detailed in the report, and the Committee agreed that an update report should be presented to the next meeting of the Committee detailing any progress.

Other Audits had been issued during the period including Financial Regulations as high assurance, and Strategic Risks, Housing Benefits and Performance Management which had been given substantial assurance.

The Committee also considered networking opportunities with Members from Audit Committees at other local authorities and agreed it would be good practice to have a meeting with both internal and external auditors on an annual basis, where officers were not present.

AGREED That the report be noted.

18. RESPONSES TO QUESTIONS RAISED AT PREVIOUS MEETING

The Business Manager and Chief Financial Officer- Financial Services presented a report which detailed the answer to a question raised by the Committee at their previous meeting relating to controls to prevent procurement fraud. The Committee heard that procurement was included in the Council's Fraud Risk Register and the likelihood was

rated as 'high' because it was acknowledged nationally that procurement fraud was difficult to detect, and that the Council had only one procurement officer. Training had been undertaken to raise awareness of fraud and the signs of fraud in colleagues. Restructuring the Business Unit so that the procurement function was not stand alone could also reduce the risk of fraud.

AGREED That the report be noted.

19. AUDIT COMMITTEE WORK PROGRAMME

The Committee considered a report presented by the Business Manager and Chief Financial Officer– Financial Services which advised Members of the future Work Plan for the period 30 November 2016 – July 2017.

AGREED That the Work Plan be noted.

20. DATE OF NEXT MEETING

NOTED that the date of the next meeting was Wednesday 30 November 2016 at 9:30am, to be followed by a training session on Treasury Management for Members of the Committee.

The meeting closed at 11.28am.

Chairman

**TREASURY MANAGEMENT 2016-17 MID YEAR REPORT**

**1. Purpose of Report**

- 1.1. This report provides an update on the Council's treasury activity and prudential indicators for the first half of 2016/17. As indicated in the report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to the investment activity, with priority being given to security and liquidity over yield.

**2. Background Information**

- 2.1. The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
- 2.2. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures that this Council is embracing best practice in accordance with CIPFA's recommendations.
- 2.3. Treasury Management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

**3. Economic Background**

- 3.1. Appendix A gives a report on the economic background from our Treasury Consultants, Arlingclose.

**4. Local Context**

- 4.1. At 31/3/2016 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £123m, while usable reserves and working capital which are the underlying resources available for investment were £42.5m.
- 4.2. At 31/3/2016, the Council had £92m of borrowing and £15m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- 4.3. The Council has an increasing CFR over the next 2 years due to the capital programme and there may be a requirement to borrow up to £7.5m over the forecast period. However, if reserve levels permit, internal borrowing will be considered.

**5. Borrowing Strategy**

- 5.1. At 30/9/2016 the Council held £92.5m of loans, (a slight increase of £0.5m on 31/3/2016), as part of its strategy for funding previous years' capital programmes.
- 5.2. The Council does not expect to borrow in 2016/17.
- 5.3. **Borrowing Activity in 2016/17**

	Balance on 01/04/2016 £m	Debt Repaid £m	New Borrowing £m	Balance on 30/09/2016 £m
CFR	123.5			129.6
Short Term Borrowing	3.64	6.04	6.78	4.38
Long Term Borrowing	88.14	0.01	0.00	88.13
<b>TOTAL BORROWING</b>	<b>91.78</b>	<b>6.05</b>	<b>6.78</b>	<b>92.51</b>
Other Long Term Liabilities	0.22	0	0	0.22
<b>TOTAL EXTERNAL DEBT</b>	<b>92.0</b>	<b>6.05</b>	<b>6.78</b>	<b>92.73</b>
Increase/ (Decrease) in Borrowing £m				0.73

- 5.4. **PWLB Certainty Rate and Project Rate Update:** The PWLB introduced a 'Certainty Rate' for borrowing in 2013 which is 0.20% below the PWLB standard rate. The rate is made available for a 12 month period, in return for the Council providing advance information about its capital investment plans. In April 2016 the Council submitted its application to CLG along with the 2016/17 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2016.
- 5.5. **LOBOs:** The Council holds £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. None of these LOBOS had options during the first 6 months of this financial year. £3.5m of these LOBOS have an option in the next 6 months. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.
- 5.6. **Barclays LOBOs:** In June Barclays Bank informed the Council of its decision to cancel all the embedded options within standard LOBO loans. This effectively converts £13m of the Council's Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date. This waiver has been done by 'deed poll'; it is irreversible and transferable by Barclays to any new lender.
- 5.7. **Internal borrowing:** For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding of capital expenditure that has not been funded from grants and other resources. This has lowered overall treasury risk by reducing both external debt and temporary investments. However this position will not be

sustainable over the medium term as the Council needs to use reserves for the purpose they were set aside for, and external borrowing may need to be undertaken.

- 5.8. **Debt rescheduling:** The premium charge for early repayment of PWLB debt remains relatively expensive for the loans in the Council’s portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

## 6. Investment Activity

- 6.1. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council’s aim is to achieve a return commensurate with these principles.

### 6.2. Investment Activity in 2016/17

Type of Investment	Balance on 01/04/2016 £m	New Investments £m	Investments Repaid £m	Balance on 30/09/2016 £m	Average Interest Rate
<b>Short term Investments:</b>					
Fixed Term Deposits	10.0	5.00	5.00	10.0	0.77%
Money Market Funds	4.32	69.25	64.25	9.32	0.40%
Bank Call Accounts	0.23	2.33	2.55	0.01	0.27%
<b>Total Short term Investments</b>	<b>14.55</b>	<b>76.58</b>	<b>71.80</b>	<b>19.33</b>	
Long term Investments	0	0	0	0	
<b>TOTAL INVESTMENTS</b>	<b>14.55</b>	<b>76.58</b>	<b>71.80</b>	<b>19.33</b>	
Increase/ (Decrease) in Investments				4.78	

- 6.3. Security of capital has remained the Council’s main investment objective. This has been maintained by following the Council’s counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.
- 6.4. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. It is now forecast to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix D). Following the reduction in Bank Rate, rates for very short-dated periods (overnight – 1 month) fell to between 0.1% and 0.2%. Debt Management Account Deposit Facility (DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 – 6 month deposits.
- 6.5. New investments on an unsecured basis with banks and building societies over the 6-month period were made at an average rate of 0.52%. Investments in Money Market Funds generated an average rate of 0.4%.
- 6.6. The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates short-dated money market investments with banks and building societies. As all of the Authority’s surplus cash continues to be invested in short-dated money market instruments, it will most likely result in a fall in investment income over the year.

6.7. Appendix B gives a report on the Counterparties from our Treasury Consultants, Arlingclose.

## 7. Prudential Indicators

7.1. The Council can confirm that it has complied with its Prudential Indicators for 2016/17, which were set on 10<sup>th</sup> March 2016 as part of the Council's Treasury Management Strategy Statement.

7.2. **Upper Limits for Fixed and Variable Interest Rate Exposure.** These indicators allow the Council to manage the extent to which it is exposed to changes in external interest rates.

£m	Approved 2016/17 £m	Actual to 30/09/2016 £m
<b><u>Fixed</u></b>		
Upper Limit for Exposure on Debt	122.3	88.1
Upper Limit for Exposure on Investments	-5	0
<b>Net Fixed Exposure</b>	<b>117.3</b>	<b>88.1</b>
<b><u>Variable</u></b>		
Upper Limit for Exposure on Debt	30.5	4.4
Upper Limit for Exposure on Investments	-27.8	-19.3
<b>Net Variable Rate Exposure</b>	<b>2.7</b>	<b>-14.9</b>

7.3. **Maturity Structure of Fixed Rate Borrowing.** This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	Upper Limit %	Actual at 30/09/16 £	Actual at 30/09/16 %	Compliance
Under 12 months	15%	£4.5m	5.1%	Yes
12-24 months	15%	£1.0m	1.2%	Yes
2-5 years	30%	£10.1m	11.4%	Yes
5-10 years	100%	£20.2m	22.9%	Yes
Over 10 years	100%	£52.3m	59.4%	Yes

7.4. **Principal Sums Invested for over 364 Days.** All investments were made on a short-term basis and there were no investments for more than 364 days.

7.5. **Authorised Limit and Operational Boundary for External Debt.** The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The s151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2015/16.

	Approved	Authorised	Actual
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	<b>Operational Boundary 2016/17 £m</b>	<b>Limit 2016/17 £m</b>	<b>External Debt 30/09/16 £m</b>
Borrowing	142.6	152.8	92.5
Other Long Term Liabilities	0.4	0.6	0.2
<b>Total</b>	<b>143</b>	<b>153.4</b>	<b>92.7</b>

**8. Outlook for the remainder of 2016/17**

8.1. Appendix C gives a summarised outlook for the rest of the current financial year from our Treasury Consultants, Arlingclose. Appendix D gives details of interest rates for borrowing and investments.

**9. RECOMMENDATIONS that:-**

- (a) the treasury activity be noted; and**
- (b) the Prudential Indicators detailed in Section 7 of the report be noted.**

Background Papers

Nil.

For further information please contact Tara Beesley, Accountant on extension 5328.

N Lovely

Business Manager and Chief Financial Officer – Financial Services

The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallization of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly Inflation Report from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

Market reaction: Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 in Appendix D.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

Moody's downgraded Deutsche Bank's long-term rating from Baa1 to Baa2 reflecting the agency's view of increased execution risks for the implementation of Deutsche Bank's strategic plan. Deutsche Bank has not been able to shake off the legacy of the global financial crisis. In September the US Department of Justice announced a \$14bn penalty claim against the bank whose share price has more than halved over the 12 months to September 2016. In March, on Arlingclose's advice, the Authority had suspended Deutsche Bank for new unsecured investments. The Authority's outstanding unsecured investments with the bank matured/will mature in [month].

In June Moody's downgraded Finland from Aaa to Aa1 on its view that Finnish economic growth will remain weak over the coming years, reducing the country's ability to absorb economic shocks.

Fitch upgraded the long-term rating of ING Bank from A to A+ based on Fitch's view of the bank's solid and stable financial metrics and its expectation that that the improvement in earnings will be maintained.

Fitch also upgraded Svenska Handelsbanken's long-term rating from AA- to AA reflecting the agency's view that the bank's earnings and profitability will remain strong, driven by robust income generation, good cost efficiency and low loan impairments.

**Outlook for Q3 and Q4 2015/16**

The economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.

The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
<b>Official Bank Rate</b>													
<b>Upside risk</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Downside risk</b>	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in in December 2016 but only if economic conditions warrant.

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

**Money Market Data and PWLB Rates**

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

**Table 1: Bank Rate, Money Market Rates**

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016	0.50	0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016	0.50	0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016	0.50	0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016	0.50	0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
31/7/2016	0.50	0.15	0.45	0.42	0.52	0.64	0.77	0.47	0.47	0.54
31/8/2016	0.25	0.11	0.18	0.18	0.38	0.54	0.69	0.42	0.42	0.48
30/9/2016	0.25	0.10	0.25	0.45	0.51	0.61	0.74	0.43	0.42	0.47
<b>Minimum</b>	0.25	0.02	0.15	0.18	0.30	0.50	0.66	0.38	0.37	0.42
<b>Average</b>	0.43	0.26	0.37	0.42	0.52	0.66	0.83	0.61	0.64	0.75
<b>Maximum</b>	0.50	0.43	0.55	0.61	0.72	0.83	1.04	0.88	0.99	1.20
<b>Spread</b>	0.25	0.41	0.40	0.43	0.42	0.33	0.38	0.51	0.62	0.78

**Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans (Standard Rate)**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
31/7/2016	292/16	1.07	1.31	1.84	2.57	2.65	2.48	2.44
31/8/2016	336/16	1.09	1.23	1.65	2.22	2.29	2.12	2.08
30/9/2016	380/16	1.02	1.20	1.70	2.34	2.43	2.29	2.27
	Low	1.01	1.15	1.62	2.20	2.27	2.10	2.07
	Average	1.20	1.54	2.12	2.81	2.87	2.70	2.67
	High	1.40	2.00	2.71	3.40	3.46	3.31	3.28

**Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans (Standard Rate)**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	292/16	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	336/16	1.12	1.25	1.67	2.02	2.23	2.31

30/9/2016	380/16	1.05	1.22	1.72	2.13	2.36	2.44
	Low	1.03	1.17	1.64	2.00	2.20	2.28
	Average	1.30	1.57	2.15	2.58	2.82	2.89
	High	1.63	2.04	2.73	3.17	3.41	3.48

**Table 4: PWLB Variable Rates (standard rate)**

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
31/7/2016	0.55	0.48	0.45	1.45	1.38	1.35
31/8/2016	0.38	0.41	0.48	2.18	1.31	1.38
30/9/2016	0.38	0.40	0.48	1.28	1.30	1.38

**INTERNAL AUDIT CHARTER**

**1.0 Purpose of Report**

- 1.1 One of the key roles of the Accounts and Audit Committee is to ensure that the Council has effective audit arrangements in place and the Internal Audit Charter is a key policy document in support of the audit arrangements.

This report presents the Committee with the revised document – taking into account the recently updated UK Public Sector Internal Audit Standards and Accounts and Audit Regulations 2015.

**2.0 Background Information**

- 2.1 The Council's Internal Audit function is delivered by Assurance Lincolnshire – a collaborative partnership consisting of Lincolnshire County Council, City of Lincoln and East Lindsey District Councils.

- 2.2 The Public Sector Internal Audit Standards (PSIAS) – which have been in place since April 2013 (updated April 2016) consist of the following elements:

- Mission Statement
- Definition of Internal Auditing
- Code of Ethics, and
- Attribute and performance Standards for the Professional Practice of Internal Auditing

- 2.3 The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit assurance.

- 2.4 The Internal Audit Charter is a key document setting out the nature, role, responsibilities and authority of the Internal Audit Service within the Council. Newark and Sherwood District Council's IA Charter has been updated to ensure conformance with the revised UK Public Sector Internal Audit Standards - published in April 2016.

- 2.5 The Standards require that the nature of assurance services must be defined in the Internal Audit Charter. The nature of any assurance provided to outside parties must also be defined along with the nature of any consulting services provided.

- 2.6 The *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the IA Charter.

- 2.7 As one of the Audit and Accounts Committee's roles is the oversight and monitoring of the effectiveness of the Internal Audit Service, the revised IA Charter is being presented to the Committee to approve the content prior to wider consultation.

- 2.9 The revised IA Charter is attached as **Appendix 1**.

### **3.0 RECOMMENDATION(S)**

- a) That the Committee approves the revised Internal Audit Charter.

#### *Reason for Recommendation(s)*

To ensure that there is a framework in place regarding the provision of internal audit services.

#### **Background Papers**

Nil

For further information please contact:

Lucy Pledge (Head of Audit – Assurance Lincolnshire – Lincolnshire County Council)

Telephone: 01522 553692

Nicky Lovely

Business Manager and Chief Financial Officer – Financial Services



## Newark and Sherwood District Council

# Internal Audit Charter

November 2016



## What we do best...

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

## ...and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

# Internal Audit Charter

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# Internal Audit Charter

## Introduction

Newark and Sherwood District Council's internal audit function is provided by Assurance Lincolnshire<sup>1</sup>. A collaborative partnership, that enables resources to be deployed where required and provides additional or specialist auditing services when needed.

There is a statutory requirement for the Council to have an internal audit of its governance, risk and control processes. The [Accounts and Audit Regulations 2015](#), more specifically require that the audit takes into account the [Public Sector Internal Audit Standards](#) (PSIAS) or guidance.

These Standards set the basic principles for carrying out internal audit in the public sector and provide criteria against which quality and performance can be evaluated. The Chartered Institute of Public Finance<sup>2</sup> (CIPFA) have also developed an [application note](#) for the Standards – which sets out the proper practice for Internal Audit in local government.

This Charter sets out how we conduct our work in accordance with this proper practice. Policies and practice guidance have been put in place to ensure all internal audit staff understand and comply with these Standards.

This Charter should also be read in conjunction with the Council's Financial Regulations.

## Purpose of Internal Audit

As our primary purpose is to provide independent and objective assurance on critical activities and key risks - we play a key part in the Council's overall assurance arrangements which are designed to ensure that its governance, risk and control frameworks are working. A professional, independent and objective internal audit service is one of the key elements of good governance.

The assurance arrangements for the Council are shown in **Figure 1 – Three Lines of Assurance**.

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

### Our mission

*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight to our clients*

The Council expects the internal audit service to achieve the mission statement through its overall delivery arrangements – this Charter sets out how this is done.

**Figure 1 – Three Lines of Assurance**



<sup>1</sup> Collaboration between Lincolnshire County Council, City of Lincoln and East Lindsey District Council audit teams.

<sup>2</sup> Responsible for setting standards for proper practice for local government internal audit in England.

# Internal Audit Charter

## Scope of Internal Audit



The scope of internal audit work will cover the Council's entire operations<sup>3</sup> – this extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take.

The Head of Internal Audit - in consultation with all relevant stakeholders and taking into account audit risk assessment processes - will determine what work will be carried out by the internal audit service.

Our aim is to align our work with other assurance functions. We may seek to place reliance on, or use the work of others where we have confidence in the work carried out. This helps us maximise the best use of the internal audit resource and other assurance functions in the Council.

Internal audit has unrestricted right of access to all Council activities and staff, which includes all records and information (in whatever form), resources and assets - seeking explanations necessary for the purpose of our work.

Right of access to other bodies funded by the Council or where contractual arrangements exist are set out in conditions of funding and / or contract.

## Independence and Objectivity



The Head of Internal Audit has direct access to all levels of management, all employees and to all elected members and particularly to those charged with governance i.e. the Chairman of the Audit and Accounts Committee, the Chief Executive, the Deputy Chief Executive (Monitoring Officer), the Business Manager – Financial Services (Section 151 Officer).

Auditors will be free from operational systems involvement or influence and will remain sufficiently independent of the activities audited to enable them to provide an objective professional judgement.

Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.

All staff members in internal audit are required to make a declaration of interest so that any potential conflicts of interest are appropriately managed.

Internal audit staff complies with the policies of the Lincolnshire County Council including the staff code of conduct which requires all staff to act with honesty, integrity, impartiality and objectivity and in an environment where all its employees are treated with dignity and respect.

<sup>3</sup> Both financial and operational service objectives and systems. Internal Audit work is not limited to the review of financial controls only.

# Internal Audit Charter



## Internal Audit Responsibilities and Objectives

The Head of Internal Audit is responsible for the provision of a complete internal audit service to the Council. This includes:

Service Area	Specific Responsibilities
<p><b>Audit</b></p>	<p>Providing an annual report to the Council's Audit and Accounts Committee and the Business Manager – Financial Services. The report will include:</p> <ul style="list-style-type: none"> <li>▪ an opinion on the effectiveness of the Council's governance, risk and control framework (including reasons why this opinion was reached)</li> <li>▪ any particular control weaknesses judged to be relevant to the development of the Annual Governance Statement</li> <li>▪ a summary and evaluation of the results of internal audit work and information obtained through the combined assurance model and the impact on the control environment</li> <li>▪ an overall summary of internal audit performance and the results of the quality assurance framework</li> <li>▪ a statement on conformance with the PSIAS</li> </ul> <p>To help achieve this we will:</p> <ul style="list-style-type: none"> <li>▪ adopt an overall strategy showing how the internal audit service will be delivered - focusing on the critical activities and key risks facing the Council.</li> <li>▪ prepare an annual risk-based plan which is designed to implement the charter, the audit strategy and the PSIAS. This will be in consultation with senior management and taking into account the adequacy and outcomes of the Council's combined assurance framework. This plan is approved by the Business Manager – Financial Services and the Audit and Accounts Committee. The audit plan will be regarded as flexible rather than as an absolute expression of audit policy/coverage. This will enable the audit plan to be able to reflect changing risks and priorities.</li> <li>▪ agree the terms of reference for an audit assignment in consultation with management. This helps to confirm the objectives of the activity and agree the scope and focus of the audit assurance being given.</li> <li>▪ review the Council's financial control arrangements to ensure proper accounting controls, systems and procedures are in place and operate effectively.</li> <li>▪ support management in their responsibilities in maintaining effective systems of governance, risk and control and, where necessary, making recommendations for improvement.</li> <li>▪ ensure that appropriate links are developed and maintained with the Council's risk management function – evaluating and contributing to the improvement of risk management in the Council.</li> </ul>

# Internal Audit Charter

## Internal Audit Responsibilities and Objectives



Service Area	Specific Responsibilities
<b>Audit (continued )</b>	<ul style="list-style-type: none"> <li>provide resources required to deliver the audit strategy and annual plan. A workforce strategy exists, which reflects the required roles, qualifications, competencies, skills experience and personal attributes necessary to deliver the service. This strategy includes the flexibility to engage external consultants to support the delivery of the annual audit plan thereby accessing expertise for specialist audit areas and addressing any capacity issues that may arise.</li> </ul>
<b>Counter Fraud</b>	<p>Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that a fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Managing the risk of fraud and corruption is the responsibility of management.</p> <p>The Council should actively seek to deter and prevent fraud, corruption and theft to ensure that all possible risks in these areas are minimised.</p> <p>Where fraud, corruption or theft is suspected or detected it will be thoroughly investigated and any proven fraud dealt with in a consistent and proportionate manner.</p>
<b>Good Governance</b>	<p>Our internal audit activity is designed to improve the governance, risk and control processes of the Council. The outcome of our work is reported in regular progress reports and an annual report to Senior Management and the Audit and Accounts Committee – these all help inform the Council's Annual Governance statement.</p> <p>As part of our risk based internal audit Plan we periodically review the Council's governance framework – benchmarking it against good practice guidance.</p>
<b>External Audit</b>	<p>The internal audit section work in conjunction with the Council's External Auditors. The External Auditor seeks to place reliance on the work of internal audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. This arrangement makes the best use of the combined audit resources and helps reduce any unnecessary overlap of audit effort.</p>

# Internal Audit Charter

## Internal Audit Responsibilities and Objectives



Service Area	Specific Responsibilities
<b>Best Practice Advice</b>	Internal audit will also respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.
<b>New Developments</b>	<p>Internal audit may also provide consultancy services, such as providing advice on new systems and emerging risks – any significant consultancy not already included in the annual internal audit plan that may affect the level of assurance work undertaken will be reported to the Audit and Accounts Committee.</p> <p>To maintain independence, any internal audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.</p>
<b>Consultancy work</b>	<p>Internal audit can also, where resources and skills exist, provide additional services beyond their assurance work. The scope of this type of work is agreed with management and should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Work may include:</p> <ul style="list-style-type: none"> <li>▪ facilitation</li> <li>▪ training</li> <li>▪ advice on governance, risk and control</li> </ul> <p>Our terms of reference makes it clear that no assurance opinion will be provided but the outcome of this work will be reported to the Audit and Accounts Committee - in so far as it impacts on the Council's governance, risk and control environment.</p>

# Internal Audit Charter

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## Management can assist the process of Internal Audit by:



Commenting on and inputting to, the audit plan and activities. Agree **(but not direct)** the Terms of Reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern to enable the most effective audit coverage and minimise duplication.

Audit work, especially its timing, should be planned in conjunction with management to minimise abortive work and time unless, for example this jeopardises the 'challenge' aspect of internal audit work or where an unannounced visit is deemed necessary

Giving information and explanations that are sought in the course of audit work

Providing access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.

Early notification of plans for change, including new operational systems and processes

Considering and responding promptly to recommendations in audit reports.

Ensuring that agreed actions arising from audit recommendations are carried out in a timely and efficient fashion

Notifying the Head of Internal Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources.

Pending investigation and reporting - Management should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

# Internal Audit Charter

## Responsibilities of the Audit and Accounts Committee

The Audit and Accounts Committee is a key component of the Council's governance framework. Their role is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards the Audit and Accounts Committee performs the role of the 'Board'.

The Audit and Accounts Committee is responsible for the following aspects of the internal audit function:

- formally approving (but not directing) the overall strategy to ensure that it meets the Councils overall strategic direction.
- approving the annual internal audit plan (paying particular attention to whether there is sufficient and appropriate coverage)
- monitoring progress against plan
- supporting the effectiveness of the internal audit process through regular oversight of performance and delivery
- undertake every 2 years an assessment as to whether adequate skills and resources are available to provide an effective audit function meeting the requirements set out in Accounts and Audit Regulations 2015 and the UK Public Sector Internal Audit Standards. This includes oversight of the Quality Assurance Framework and any improvement plans.
- Oversee Internal Audit's independence, objectivity and professionalism.
- Ensure that effective relationships exist between external audit and internal audit and that the value of the audit process is actively promoted
- The Head of Internal Audit also has the opportunity to meet in private with the Audit and Accounts Committee if the need arises.

## Audit Reporting Framework

All audit activity is intended to assist management to fulfil their objectives of delivering services and contributing to the overall objectives of the Council. Outputs from Audit work can range from informal advice to formal written reports

The reporting structure is designed to ensure that final versions are agreed with and by managers and are both accurate and practicable. After agreement any report or guidance will be issued to senior management of the area reviewed. Copies of audit reports are also made available to the Council's External Auditors. The circulation of audit reports will be agreed at the outset of an audit assignment and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing internal audit from meeting its reporting responsibilities to the wider organisation

Recommendations made within assurance and compliance audits are ranked high or medium priority – depending upon the relative importance of the audit finding. The level of risk exposure associated with audit finding and the number and level of recommendations will influence the assurance opinion which will be either:

- High
- Substantial
- Limited
- Low

**Appendix 1** - provides more guidance on the rationale we apply when forming our audit opinions

# Internal Audit Charter

## Audit Reporting Framework continued...

The UK Public Sector Internal Audit Standards requires the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The audit and risk strategy, internal audit plan and internal audit charter are presented to Directors and the Corporate Management Team. Both are approved by the Audit and Accounts Committee.
- The Head of Internal Audit will meet informally in private with members of the Audit and Accounts Committee or the Committee as a whole as required.
- Performance and delivery against the internal audit plan and any significant risks and control issues arising from internal audit work are reported independently to the Corporate Management Team and the Audit and Accounts Committee on a regular basis
- Results of the review on the effectiveness of internal audit (including outcomes of its Quality Assurance and Improvement programme) will be reported to both the Corporate Management Team and the Audit and Accounts Committee.
- The Head of Internal Audit will draw to the attention of the Business Manager – Financial Services and the Audit and Accounts Committee any resourcing issues that potentially impact on the effectiveness of the internal audit function.
- Minutes of the Audit and Accounts Committee are presented at full Council – including results of the review of effectiveness of the internal audit service.
- The Head of Internal Audit has unfettered access to the Chief Executive, Business Manager – Financial Services (Section 151 Officer), Deputy Chief Executive (Monitoring Officer) and the Audit and Accounts Committee as required



# Internal Audit Charter

## Quality of Service and Due Professional Care

The internal audit section operates in accordance with standards of best practice applicable to internal audit (in particular the UK Public Sector Internal Audit Standards and Standards in Public Life's **Seven Principles of Public Life**).

We have a Quality Assurance Framework that covers all areas of internal audit activity. This consists of:

- A practice manual that outlines the key responsibilities of auditors and defines an audit process which:
  - Promotes conformance with the Standards - helping us meet the ten Core Principles in the PSIAS
  - encourages consistency and quality
  - results in assignment conclusions that can be supported by sufficient, relevant and reliable fieldwork
- Supervision and review of work standards. This incorporates review of all audit documentation and reports prior to release to the relevant Senior Manager
- Annual appraisal of the Head of Internal Audit. This includes reference to CIPFA's 'comply or explain' statement on the 'Role of the Head of Internal Audit'
- Regular liaison meetings are also undertaken with Senior Management to discuss work performed and planned.
- Opinions are regularly canvassed from management responsible for activities under review.

- A suite of performance indicators and targets have been developed to monitor the quality of the service provided. Performance reports are submitted on a quarterly basis to the Audit and Accounts Committee via a progress and delivery report
- Annual assessment of the service and its compliance with the UK Public Sector internal audit Standards – with this assessment being undertaken through an external assessment at least every five years by a suitably qualified, independent assessor
- A programme of Continuous Professional Development for all internal audit staff to ensure they maintain and enhance their knowledge, skills and audit competencies.

## Core Principles

The core principles, taken as a whole, must be present and operating effectively for our internal audit service to be considered effective – they are:-

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence (independent)
- aligns with the strategies, objectives and risks of the organisation
- is appropriately positioned and adequately resourced
- demonstrates quality and continuous improvement
- communicates effectively
- provides risk based assurance
- is insightful, proactive and future focused
- promotes organisational improvement



# Internal Audit Charter

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## Location



Assurance Lincolnshire  
Lincolnshire County Council  
County Offices  
Newland  
Lincoln  
LN1 1YG

Newark and Sherwood District Council  
Kelham Hall  
Kelham  
Notts NG23 5QX

## Advice and Support



Key contacts:

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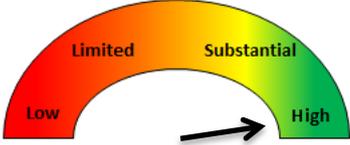
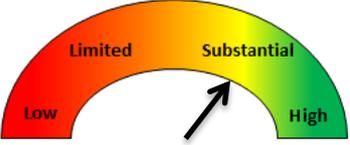
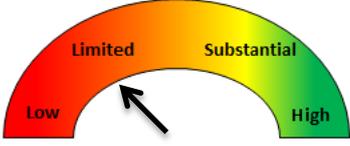
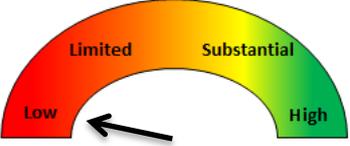
<http://microsites.lincolnshire.gov.uk/AuditLincolnshire>

General contact:

Email [CorporateAudit@lincolnshire.gov.uk](mailto:CorporateAudit@lincolnshire.gov.uk)  
Telephone: 01522 5536836

## Appendix 1 – Assurance Definitions

Our assurance definitions are the criterion against which to draw our conclusions. They act as a guide to help consistency but the rating may be different if the area being reviewed has more impact on the Council. In drawing our conclusions we consider our findings in the context of what was expected, what was found and how significant (material) and important (impact) our findings are. The definitions are listed below, noting that points of good practice or actions not in place do not affect the overall opinion.

High (positive assurance)	Substantial (positive assurance)
 <p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>	 <p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
Limited (negative assurance)	Low (negative assurance)
 <p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>	 <p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

Action Priority	
High	Immediate management attention is required - an internal control or risk issue where there is a high certainty of: substantial loss / non-compliance with corporate strategies, policies or values / serious reputational damage / adverse regulatory impact and / or material fines (action taken usually within 3 months).
Medium	Timely management action is warranted - an internal control or risk issue that could lead to financial loss / reputational damage / adverse regulatory impact, public sanction and / or immaterial fines (action taken usually within 6 to 12 months).

**INTERNAL AUDIT PROGRESS REPORT**

**1.0 Purpose of Report**

To receive and comment upon the latest Internal Audit Progress Report which covers the period up to 31 October 2016.

**2.0 Introduction**

The purpose of the internal audit progress report (Annex A) is to provide a summary of Internal Audit work undertaken during 2016/17 against the agreed audit plan.

**3.0 RECOMMENDATION**

**That the Audit and Accounts Committee consider and comment upon the latest internal audit progress report.**

**Background Papers**

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nicky Lovely  
Business Manager & Chief Financial Officer - Financial Services



# Internal Audit Progress Report November 2016



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## Introduction

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1. The purpose of this report is to:
  - Advise of progress made with the 2016/17 Audit Plan as at the end of October 2016
  - Provide details of the audit work undertaken since the last progress report.
  - Provide details of the current position with agreed management actions in respect of previously issued reports
  - Raise any other matters that may be relevant to the Audit and Accounts Committee role

## Key Messages

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2. We are pleased to report that there is now only one job remaining from the 2015/16 plan, Procurement. This is at draft report stage awaiting comments from the auditee.
3. Work continues to progress on the 2016/17 audit plan, we have completed 3 audits since our last progress report, we have 2 at draft report stage and 6 more in progress. Appendix 1 provides details on the current status of the plan.
4. Good progress has been made in implementing audit recommendations - there are currently only 6 overdue actions, none of which are high priority. Details on the outstanding actions can be found in Appendix 2.
5. As at the end of October 2016 we have delivered 24% of the 2016/17 plan against a profiled target of 37%. The impact of the summer holiday period continues to affect the delivery and there has been a slight delay in the availability of resources due to organisational change within one of our partners. These have now been resolved and the resources will be available next month and we also have some additional resource to ensure that the plan is completed. Appendix 3 shows our performance to 31 October 2016.
6. A review and refresh of The Internal Audit Charter has been completed and will be reported to the Committee separately.
7. The scheduled External Quality Assessment (EQA) of Assurance Lincolnshire was completed in September 2016. The final report will be shared with the Committee in a separate report.

## Internal Audit work completed at 31st October 2016

8. The following audit work has been completed and final reports have been issued since the progress report presented to the September meeting of the audit committee:

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance	Consultancy
<ul style="list-style-type: none"> <li>■ None</li> </ul>	<ul style="list-style-type: none"> <li>■ Anti Social Behaviour and Domestic Violence</li> <li>■ Property, Plant and Equipment</li> <li>■ Financial Key Controls</li> </ul>	<ul style="list-style-type: none"> <li>■ None</li> </ul>	<ul style="list-style-type: none"> <li>■ None</li> </ul>	<ul style="list-style-type: none"> <li>■ None</li> </ul>

**Note:** The Audit and Accounts Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 4.

For the audits in the above table, we confirmed that the Council has sound processes in place. Below is a summary of our findings:-

### Anti Social Behaviour and Domestic Violence - Substantial

Overall, there are adequate arrangements in place (including early interventions) to reduce the ASB, DV and associated crimes, meeting their objective of ensuring that the Newark and Sherwood area has safe communities to live and work in. ASB incidents are recorded with the cases monitored and regularly reviewed. The Council appropriately uses a range of measures and enforcement actions which ensure:

- Repeat perpetrators are warned and persistent offending brought to justice.
- Victims of ASB and DV (particularly those at high risk) are listened to and supported by working together with several partners and multi-agency organisations.
- Underlying causes for the perpetrators' anti-social and domestic violence behaviours are understood and appropriate support is given that targets the root cause e.g. drug abuse, homelessness and alcohol dependency.

### Property, Plant and Equipment - Substantial

The arrangements in place for recording and managing PPE are operating efficiently ensuring that the asset values and their useful economic life are accurately recorded enabling accurate financial reporting. Particular areas of good practice include:-

- Officer responsibilities clearly understood.
- Existence of the Asset Holders Meeting Group which meets regularly.
- Effective dialogue between the lead officer responsible for maintaining the fixed asset register and the Asset Management Business Unit .
- Use of professionally qualified external valuer.
- Compliance with the Council's accounting policies.

## Financial Key Controls

The Council has good processes and key controls in place which ensure that the systems reviewed operate effectively and protect the business from fraud and error. Particular areas of good practice include:-

- **Separation of duties**

Separation of duties is maintained - there is separation of duties in setting staff up and processing payroll and between the day to day NNDR work and income collection/posting payments.

- **Accuracy of system data**

System access is appropriately restricted and reviewed.

- **Authorisation**

- Overtime forms are completed in full, appropriately authorised and correctly processed;
- Changes to Gross Pay are supported by authorised documentation and correctly actioned;
- The NNDR write-offs are approved appropriately prior to being processed on the system

- **Processing**

- The NNDR reminder and recovery action is taken in accordance with the recovery timetable
- There is an approved, up to date Treasury Management Strategy / Policy and supporting Treasury Management Practice schedules
- Daily cash flow is monitored and used to inform short-term investment decisions.

- **Reconciliations**

- Various reconciliations between CIVICA (NNDR), cash receipting (ICON) and the ledger are completed;
- NNDR suspense accounts are reviewed and cleared every day;

- Ledger control accounts are reviewed monthly;
- Monthly bank reconciliations are completed.

## Overdue Audit Recommendations

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9. Currently there are 6 overdue management actions that were due for completion by the 31st October 2016. These relate to the UNIFORM system where there are 5 medium recommendations outstanding and CCTV where there is 1 medium recommendation outstanding. Those for the UNIFORM system were originally due for implementation in September and December 2015 and whilst we have been provided with reasons for delays and revised dates we are concerned with the length of time taken to progress these. In Appendix 2 we have provided a summary of all outstanding actions due to have been completed by 31 October 2016.

## Performance Information

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10. Our performance is measured against a range of indicators. We are pleased to report a good level of achievement against our targets – Appendix 3 shows our performance on key indicators as at 31st October 2016.

## Appendix 1 – Audit Plan 2016/17 Schedule

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
<b>Critical Service Activities</b>	<b>86</b>					
<b>Director Communities</b>						
Transport/Vehicle Fleet maintenance	10	Cost of maintaining and using Council vehicles is accurately and efficiently recorded and monitored.	August rescheduled to September	October		Draft Report
Security Audit	8	The building, it's physical and information assets are secure.	February			
Car Parks	3.5	Additional work requested to provide assurance on the security of income.	August	August		Draft Report
<b>Director Customers</b>						
ICT Audit – Applications	10	Review of one or more key applications.	September			Scope under discussion
ICT Audit – Database Management	8	Review of management of databases including listing, access etc	January			
National Civil War Centre/Palace Theatre	8	Follow-up visit following the integration ensuring that the recommendations made previously have been implemented, and the revised processes and security comply with relevant policies.	August	September		Fieldwork nearly completed
Partnership – Active4Today	10	Effective partnership arrangements are in place ensuring delivery of the objectives set for the Company.	September			
<b>Director Safety</b>						
Anti Social Behaviour and Domestic Violence	10	Compliance with The Anti-Social Behaviour, Crime & Policing Act 2014 and other Council policies.	July	July	November 2016	Substantial
Emergency Planning	10	Arrangements are in place which enable the	February			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		Council to effectively manage an emergency planning situation.				
Ethics	10	There is a frame work and processes in place which ensures that the Council, Members and staff behave in an ethical manner.	December			Planning underway
<b>Due Diligence</b>	<b>93</b>					
<b>Director of Resources</b>						
Counter Fraud	5	Follow-up of previous reports and assurance that there are adequate arrangements in place post the DWP transfer.	January			
Key Control Testing	30	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment	February			
NNDR	8	The NNDR due is collected.	January			
Property, Plant and Equipment	7	Cyclical System Review	June	June 2016	October 2016	Substantial
Benefits	15	Cyclical System Review	May	May 2016	July 2016	Substantial
<b>Director Safety</b>						
Business Continuity	10	Arrangements are in place which enable the Council to effectively manage a business continuity incident. This will include arrangements for the move and new offices.	September			Contacted auditee for a start date.
Human Resources	10	There is an effective Human Resources service which provides support to the Business and ensures that all relevant policies are in place, monitored and complied with.	October postponed to December			Planning underway.
Risk Management	8	There are arrangements in place which ensure that the risks are identified,	November			Contacted auditee for start date.

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		monitored and mitigated.				
<b>Key Projects</b>	<b>30</b>					
Newark Sports Hub	8	The project is being effectively managed.	January			
Moving ahead – Gateway Review	10	The project is being effectively managed - Further gateway reviews to ensure processes and systems in place for project overall.	November			
Moving ahead – New build capital project	12	Capital expenditure on the new build offices is effectively managed.	January			
<b>Strategic and Emerging Risks</b>	<b>20</b>					
Housing and Planning Act	9	The requirements of the Act are identified, implemented and the effects of the implementation reported (including the effect on the HRA)	November			
Affordable Housing Growth	9	The requirements and impact of the Act are identified and relevant action taken.	October			
Revised Governance Framework – CIPFA SOLACE	2	Requirements of the revised framework have been identified and implemented/plans in place to implement.	October			
<b>Other relevant Areas</b>	<b>84</b>					
Mansfield Crematorium	5	Annual review of accounts.	April	April	May	Completed
Gilstrap Accounts	1	Annual review of accounts.	July	July	July	Completed
Cattle Market	6	Annual audit of rental fee and additional work requested.	May			Report issued to Director.
Newark and Sherwood Homes	45	Internal Audit Plan 2016/17	Various			Audits commenced
Southwell Leisure Centre	5	Financial Processes	November			
Combined Assurance	15	Updating assurances on the Council's assurance map with	October			Underway

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		service managers and helping to co-ordinating the annual status report.				
Follow-up of previous audit reports	7		Ongoing			
<b>Non-Audit</b>	<b>39</b>					
Advice & Liaison	15		Ongoing			
Annual Report	3		Ongoing	April	July	Completed
Audit Committee	10		Ongoing			
Review strategy and planning	3		Ongoing			
Contingency	6.5	Original budget 10, 3.5 allocated to Car Parks work.	N/A	N/A	N/A	N/A
<b>Grand Total (Revised)</b>	<b>352</b>					

## Appendix 2 - Overdue Audit Recommendations

Summary of recommendations outstanding which were due to be implemented by 31 October 2016.

Audit Area	Date	Assurance	No.of Agreed Recs	Implemented/ Closed	Outstanding		Revised Implementation Date	Not Due
					H	M		
<b>ICT</b>								
ICT - UNIFORM	Sept '15	Some Imp. Needed	14	9	0	5	31/10/2016	0
<b>Safety</b>								
CCTV	Feb '16	Substantial	5	3	0	1	1 revised to 30/09/16, 1 revised to 31/01/17	1
<b>Total</b>			<b>19</b>	<b>12</b>	<b>0</b>	<b>6</b>		<b>1</b>

## Appendix 3 - Performance Details 2016/17 Planned Work

Performance Indicator	Target	2016/17 Actual @ 31/10/16
Percentage of plan completed.	37% profiled (100% Annual year end)	24%
Percentage of key financial systems completed.	100% (Annual year end)	37%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented.	100%	100%
Timescales		
a) Draft report issued within 10 working days of completing audit.	■ 100%	■ 100%
b) Final report issued within 5 working days of closure meeting / receipt of management responses.	■ 100%	■ 67%
c) Draft report issued within 2 months of fieldwork commencing	■ 80%	■ 100%
Client Feedback on Audit (average)	Good to excellent	Good

## Appendix 4 - Assurance Definitions<sup>1</sup>

<p><b>High Assurance</b></p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p><b>Substantial Assurance</b></p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p><b>Limited Assurance</b></p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p><b>Low Assurance</b></p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

<sup>1</sup> These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

**RESULTS OF THE EXTERNAL QUALITY ASSESSMENT OF ASSURANCE LINCOLNSHIRE**

**1.0 Purpose of Report**

1.1 To present the result of the External Quality Assessment of Assurance Lincolnshire, the Council's internal audit provider.

**2.0 Background Information**

2.1 Internal Audit within the Public Sector in the UK is governed by the Public Sector Internal Audit Standards (PSIAS) - which have been in place since April 2013 (updated April 2016). The Standards require an external quality assessment at least once every 5 years as part of Internal Audit's Quality Assurance and Improvement Programme – this report provides the Committee with information on the result of the external quality assessment.

2.2 The Council's Internal Audit function is delivered by Assurance Lincolnshire – a collaborative partnership consisting of Lincolnshire County Council, City of Lincoln and East Lindsey District Council.

**3.0 Introduction**

3.1 The Public Sector Internal Audit Standards (PSIAS) – which have been in place since April 2013 (updated April 2016) consist of the following elements:

- Mission Statement
- Definition of Internal Auditing
- Code of Ethics, and
- Attribute and performance Standards for the Professional Practice of Internal Auditing

3.2 The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit assurance.

3.3 In local government the PSIAS are mandatory as required by the Accounts and Audit Regulations 2015. There is also a requirement to comply with the CIPFA Advisory Note associated with the Standards.

3.4 The Standards require an external assessment to be carried out at least once every 5 years as part of the Internal Audit Functions Quality Assurance Framework and Improvement Plan. It must be conducted by a qualified, independent assessor or assessment team from outside the organisation. Assurance Lincolnshire's Assessment was conducted by CIPFA.

3.5 CIPFA is ideally placed to carry out the review. They are one of the professional bodies who set internal audit standards for public bodies and provide professional guidance on the standards as well as other aspects of internal audit. CIPFA is therefore very familiar with internal audit standards in policy and in practice. They have undertaken a number of External Quality Assessments.

#### 4.0 **Process**

4.1 The assessment was undertaken in September 2016 and included:

- Discussion with 34 people across our client base, including Newark and Sherwood District Council. This involved Audit Committee Chair's, Chief Executives, Section 151 Officers and auditees.
- Review of a wide range of documentary evidence and audit files, including the Internal Audit Charter.
- Comparison with other Internal Audit Functions

Assurance Lincolnshire practice was assessed against 56 fundamental principles and over 150 points of recommended practice.

#### 5.0 **Overall Conclusion**

5.1 There were no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

5.2 In response to the best practice question the Assessor stated:-

*"As part of my review I was asked to compare the Assurance Lincolnshire Partnership against other authorities for whom CIPFA has undertaken PSIAS reviews. There is little that I can add to the excellent work that you are already doing and I have already requested examples of some of your core documents to share with others".*

The report also told us that:

*"Assurance Lincolnshire is one of the best examples of collaborative working she has seen."*

5.3 Assurance Lincolnshire is really pleased with the outcome of the External Quality Assessment – it is a rigorous and challenging assessment. We pride ourselves on being an experienced, competent and innovative provider - who strives to maintain and develop its service by embedding quality. This helps provide confidence to the Council over the quality of the internal audit service and the high calibre of the people who deliver its internal work and plan.

5.4 A copy of the External Quality Assessment report is attached in **Appendix A**.

#### 6.0 **Quality Improvement Plan**

6.1 The Assessor did identify some recommendations for further development and improvement. Actions have been agreed and included in our Quality Improvement Plan. Two recommendations were made:

R1 Include details of resources in the strategy/audit plan.

*More information on the team and level of staff resources deployed to deliver the plan will be included in future reports.*

R2 Ensure that the planned ethical audit is undertaken.

*Assurance Lincolnshire plan and undertake work to contribute to the development of clients governance arrangements. Updated good practice guidance on governance, including ethics, was published in April 2016. Assurance Lincolnshire work plans for 2016 and 2017 include assurance over conformance with this guidance and whether clients governance arrangements are working effectively. We propose to include this work for Newark and Sherwood District Council in the 2016/17 plan.*

6.2 A copy of Assurance Lincolnshire's Quality Assurance and Improvement Plan is attached in **Appendix B.**

## 7.0 **RECOMMENDATION(S)**

### **That the Committee:**

- a) note the External Quality Assessment of Assurance Lincolnshire as attached
- b) are assured over the quality and effectiveness of the Council's Internal Audit Service provider – Assurance Lincolnshire.
- c) note the Quality Assurance and Improvement Plan.

## **Background Papers**

Public Sector Internal Audit Standards  
Local Government Advisory Note

For further information please contact

Lucy Pledge (Head of Audit – Assurance Lincolnshire – Lincolnshire County Council)  
Tel: 01522 553692

Nicky Lovely  
Business Manager & Chief Financial Officer - Financial Services

# **Final Report for the external assessment of the internal audit function**

## **Assurance Lincolnshire Partnership**

**Lead Associate: Elizabeth Humphrey, CPFA**

**Internal QA: Keeley Lund, Technical Manager, CIPFA, Professional  
Standards & Guidance**

**21<sup>st</sup> October 2016**

## **Review of Assurance Lincolnshire Partnership's Internal Audit service (September/October 2016)**

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013. The standards require periodic self-assessments and an assessment by an external person every five years. Now that the Assurance Lincolnshire Partnership has been operating under the standards for over three years, this was deemed a good time for the first external review. The review also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS. This report summarises the findings from reviews across the Partnership and focuses on those areas that are common to the whole Partnership. It should be read in conjunction with the three reports for City of Lincoln Council, East Lindsey District Council and Lincolnshire County Council.

The review was carried out through a process of interview and document review. I should like to thank all those who took the time to talk to me for their help. I reviewed fifteen audits carried out during the 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to audit committees.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, and only one area of partial non-compliance in relation to the lack of audit of ethics and values at each Council. I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards without requiring significant extra work. The Partnership will need to take action to implement them and an action plan is included as appendix 1.

### **Best Practices**

As part of my review I was asked to compare the Assurance Lincolnshire Partnership against other authorities for whom CIPFA has undertaken PSIAS reviews. There is little that I can add to the excellent work that you are already doing and I have already requested examples of some of your core documents to share with others. I have, however, indicated some areas where you could develop your practices further through the suggestions made below. Two further areas for possible development are:

- Working with audit committees to aid their challenge and support of your work, in particular their understanding of the implications of what they are being told and also their engagement in the audit process. One idea is to hold working groups outside the formal committee structure to examine issues arising from audits in greater detail.
- Making the audit principles live rather than simply referring to them in the Charter and audit report, perhaps linking them to your performance measures.

## Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	Full	<b>Standard 1000.A1</b> The nature of assurance work is defined in the Charter, although it would be improved by making the link to the annual audit opinion	Make the link between assurance and the annual audit opinion in the Charter	S1
<b>1100</b> Independence and objectivity	Full	<b>Standard 1110</b> Independence and objectivity are well managed. The annual report did not, however, confirm no impairments to independence	Include a statement to confirm that independence has not been impaired in the past year in the annual report	S2
<b>1200</b> Proficiency and due professional care	Full	It was clear from the audit files that audit work is carried out with proficiency and care and in accordance with the Partnership's Practice Notes		
<b>1300</b> Quality assurance and improvement programme	Full	Quality and improvement is given priority and developments are shared across the Partnership		
<b>Performance standards</b>				
<b>2000</b> Managing the internal audit activity	Full	<b>Standard 2010</b> The same audit opinions are used across the Partnership for audits but not for the annual audit opinion	Consider using the same opinion for audit reports and for the annual audit opinion	S3
		<b>Standard 2050</b> A detailed assurance mapping process underpins each year's audit plan and sources of assurance are included on the map but not in the annual plan	Make reference to the assurance mapping process and sources of assurance in the annual audit plan	S4
		<b>LGAN 7.1.2</b> The audit strategy used by CLC and ELDC does not include references as to how audit service will be provided nor the resources needed to deliver the strategy	Include details of resources in the strategy/audit plan	R1
<b>2100</b> Nature of work	Partial	<b>Standard 2110.A1</b> Little ethics work has been undertaken in the past although some is now planned at each council	Ensure that the planned ethical audit is undertaken	R2

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>2200</b> Engagement planning	Full	<b>Standards 2120.A1, 2130.A1 and 2210.A3</b> Engagement planning is thorough and follows the requirements of the audit manual. The introduction of the Planning Engagement Document (PED) has been particularly helpful. However, terms of reference do not cover anything that has been ruled out of the audit (value for money and fraud risks for example) and refer to risks only in high-level terms	Consider including more detail regarding risks on terms of reference Consider indicating which areas have been deemed not applicable on terms of reference And/or consider sharing the PED with auditees	S5  S6  S7
<b>2300</b> Performing the engagement	Full	My review showed that audits are well-performed and well-documented		
<b>2400</b> Communicating the results	Full	Reports are clear and reflect the work undertaken. The new reporting template was particularly welcomed by clients		
<b>2500</b> Monitoring progress	Full	The tracker mechanisms used at each Council push responsibility for monitoring implementation of recommendations onto auditees with audit taking a pragmatic, risk-based approach to obtaining evidence		
<b>2600</b> Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at each council on audit findings <b>LGAN 10.2.7</b> Other than at ELDC and LCC (but not its clients), there are no arrangements to ensure that risks identified in audits are included on risk registers where appropriate	Introduce mechanisms to highlight risks arising from audits that should be included on risk registers, especially at clients	S8
<b>Code of Ethics</b>	Full	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity		
<b>Mission</b>	Full	The Charter includes the newly developed internal audit mission		
<b>Core principles</b>	Full	No problems were identified	Work to integrate the	S9

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>of internal audit</b>		with following the new core principles, with the detailed assurance mapping exercise being particularly key. Further work will be needed to demonstrate compliance in the annual report for 2016/17	core principles into audit's work and consider how best to demonstrate this in the annual report in future	

Each member of the Partnership has details of the findings, standard by standard.

Elizabeth Humphrey CPFA

## Appendix 1: action plan

### Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include details of resources in the strategy/audit plan	Agreed – we will ensure a suitable statement on the adequacy of internal audit resources for all our clients.	Senior Management Group	31 <sup>st</sup> March 2016
R2	Ensure that the planned ethical audit is undertaken	Agreed - work is planned to provide assurance over how well our clients governance arrangement work in practice. This includes will include ethics.	Senior Management Group	31 <sup>st</sup> March 2016

### Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Make the link between assurance and the annual audit opinion in the Charter	Agreed – updated Charter	Lucy Pledge	Done
S2	Include a statement to confirm that independence has not been impaired in the past year in the annual report	Agreed - for 2016/17 annual report	Lucy Pledge	May 2017
S3	Consider using the same opinion for audit reports and for the annual audit opinion	We are comfortable with our current approach.	-	-
S4	Make reference to the assurance mapping process and sources of assurance in the annual audit plan	Agreed	Lucy Pledge	February / March 2017
S5	Consider including more detail regarding risks on terms of reference	We will ensure that risk descriptions are consistent across all documents – providing appropriate detail.	John Sketchley	Done
S6	Consider indicating which areas have been deemed not applicable on terms of reference	Our guidance to auditors within the terms of reference template includes 'to provide information on areas we are not reviewing'. We will remind staff for the need to be more explicit over the risks and areas not being covered in the terms of reference document.	John Sketchley	Done
S7	Consider sharing the PED with auditees	Not agreed – we use this as an internal planning document. The		

No	Suggestion	Response	Responsible officer	Action date
		key elements and information is already included in the Terms of Reference.		
S8	Introduce mechanisms to highlight risks arising from audits that should be included on risk registers, especially at clients	Agreed - We will include this element in our reports.	Rachel Abbott	31 <sup>st</sup> October 2016
S9	Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	<p>We will explore this further with our partners to consider if further action is required within our audit work.</p> <p>We will continue to promote the standards and core principles through our practice and team meetings.</p> <p>We will include commentary around the core principles in our annual report</p>	Senior Management	31 <sup>st</sup> December 2016

Opportunities for Improvement		Actions	Timescale for tasks to be achieved	Person Responsible	Status
<b>Governance</b>					
1.	Benchmarking	<p>Analyse and feedback on CIPFA Benchmarking data and report to management team on key messages</p> <p>Feedback to Team meeting</p> <p>Review applicability and relevancy of benchmarking data sources – some information received through network and CIPFA</p> <p>No longer part of benchmarking club – information doesn't provide insight or good comparison given varied client base and differences in delivery models.</p>	<p>September 2015 -</p> <p>September 2015</p> <p>September 2016</p>	<p>John Sketchley</p> <p>Management Team</p> <p>John Sketchley</p>	<p>Not complete</p> <p>Not complete</p> <p>Not due</p>
2.	Purpose, Authority & Responsibility	Update Audit Charter to Reflect the updated PSIAS (Addition of Core Principles & Mission Statement)	August 2016 (November 2016 Audit Committee)	Lucy Pledge	Complete
3.	Audit Committee Effectiveness – LCC only	<p>Support publication of Audit Committee Annual Report:</p> <ul style="list-style-type: none"> <li>• Self assessment of effectiveness</li> <li>• Draft annual report</li> </ul>	May 2016 June 2016	Lucy Pledge & Cllr S Rawlins	Complete. Draft shared with informal executive – will be published for Dec Council

Opportunities for Improvement	Actions	Timescale for tasks to be achieved	Person Responsible	Status	
<b>Governance</b>					
4.	Ethical Audits	Recommendation arising from External Quality Assessment Complete the ethical audit at LCC  Plan and undertake governance audit at each client and discuss value and timing of an ethical audit ie are the governance arrangements working?	Phase 1 – September 2016  Phase 2 – March 2016  March 2016 2016/17 audit plan	Lucy Pledge   Lucy Pledge John Sketchley Dianne Downs Emma Bee John Scott	Phase 1 completed Phase 2 – draft terms of reference to CMB November 2016  Will discuss as part of liaison meetings
5.	PSIAS	Regular practice discussions at team meetings – including: <ul style="list-style-type: none"> <li>• Code of ethics</li> <li>• Audit process</li> <li>• Communicating results</li> <li>• Hot topic</li> </ul>	Ongoing	Management Team	Included as part of Service and Team Meetings
6.	Internal Audit Strategy / Plan	Include more information on resources in the internal audit strategy / plan eg structure chart	March 2017	Lucy Pledge Emma Bee John Scott	Not due
7.	Progress and Delivery Reporting	Improve in year reporting on the outcome of internal audit work and performance ( <b>as necessary</b> )	Immediate	Lucy Pledge John Scott Emma Bee	Progress reports will be shared with Management Teams

	Opportunities for Improvement	Actions	Timescale for tasks to be achieved	Person Responsible	Status
8.	Annual Report	Review Annual report template to provide information on resources and how to illustrate conformance with the PSIAS mission statement and core principles	March 2016	Lucy Pledge John Scott Emma Bee	Not due
<b>Practice</b>					
9.	Quality Assurance and performance - Practice Manual	Full Manual review – conducted with the team	<del>October 2015</del> May 2016	Steph O'Donnell	Complete. Practice workshop held in July and August 2016
10.	Quality Assurance - External Assessment	Co-ordinate external assessment and implement any suggested improvements: <ul style="list-style-type: none"> <li>• Develop project plan</li> <li>• Conduct self assessment and pull together evidence pack for external assessor</li> <li>• Engagement planning</li> <li>• Assessment</li> <li>• Outcome report</li> </ul>	June 2016 June - July 2016 August 2016 September 2016  November 2016	Lucy Pledge & John Sketchley	Complete – Assessment undertaken in September 2016.
11.	Quality Assurance – feedback from key stakeholders	Bi- annual survey on effectiveness of Internal Audit Service	Postponed – will be picked up as part of External Assessment	-	-

	Opportunities for Improvement	Actions	Timescale for tasks to be achieved	Person Responsible	Status
12.	Quality Assurance – post audit feedback	Improve post audit questionnaire return rate	September 2016	Amanda Hunt	Complete – followed up as part of liaison meeting
13.	Implementation of recommendations	Working with management to ensure that agreed actions are implemented – setting realistic timescales and taking ownership for implementation	September 2016	Al Simson	Completed –
<b>Practice</b>					
14.	Performance – External Audit Protocol	Update External Audit protocols to ensure best use of combined audit resources for client	July 2016 – Revised to December 2016	Lucy Pledge	Not due
15.	Practice notes	Health Check and VfM practice note – review and sign off	December 2016	Lucy Pledge	Not due
16.	Performance – Combined Assurance	Review and update process (improve integration of risk management and other sources of assurances)	September 2016	Lucy Pledge & John Sketchley	Complete. Workshop held and practice note updated.
17.	Performance – ICT Strategy	Update ICT strategy and approach following developments within the collaboration partnership and LCC delivery through SERCO	June 2016	John Sketchley	Complete – strategy updated.
<b>Communication</b>					
18.	Quality Assurance outcomes	Improve outcome reporting - Key theme report  Developing training and support to improve as required	July 2016	Rachel Abbott and Team Leaders	Complete

	Opportunities for Improvement	Actions	Timescale for tasks to be achieved	Person Responsible	Status
<b>Communication</b>					
19.	Contemporary reporting	Improve timescales for delivery of audit and investigations from time fieldwork commences to issue of draft and final reports	Monitored through progress reports	Dianne Downs Audit and Counter Fraud Teams	On going
20.	LCC only Managing client relationship	Take the opportunity given by the Senior Management restructure to rebuild relationship with IT service manager.	November 2016	Lucy Pledge & John Sketchley	On-going
21.	Email	Review and extend as necessary GCSX email accounts	November 2016	John Scott	Not due

<b>Continuing Professional Development (Service / Team)</b>				
	Area / Activity	Outcome	Date Planned	Status
1.	IT Audit Awareness / Training General	Provide general awareness training for the team of key IT risks that they should be aware of in performing audits  Provide information on Audit Lincolnshire approach to IT Audits	October & November 2016	General Awareness training provided – IT Audit considerations programme developed and will be shared at Team Meeting and included as part of audit planning

<b>Continuing Professional Development (Service / Team)</b>				
	<b>Area / Activity</b>	<b>Outcome</b>	<b>Date Planned</b>	<b>Status</b>
		Greater understanding of Computer Aided Auditing Techniques – benefits and use in determining testing strategies / analysing data		Further guidance on CAAT's required
2.	Update on UK Public Sector Internal Audit Standards <ul style="list-style-type: none"> <li>• April 2016 additions</li> <li>• Key areas</li> </ul>	Provide a refresher on the PSIAS and make clear links between these and our procedures and practice	July 2016	Complete
3.	Workshop on Planning and Engagement and developing the engagement terms of reference	Improve understanding and techniques to get the most out of the planning and engagement process – ensuring that the audit / or consultancy engagement focusses on what matters	July 2016	Complete
4.	Building on the E-learning on risk management process New module being launched at LCC	Ensure that all team is aware of the risk management processes of their clients and how this can help inform the audit process..	By September 2016	Complete
5.	Pentana	Equip staff to use the new audit software to its full potential and maximise compliance with the PSIAS	Dependent on Pentana installation – date still pending  Explore external hosting options	Order placed
6.	Appraisal training	Attend corporate training for the new Principals and new	Working with Dave Simpson to get a face to	Complete

<b>Continuing Professional Development (Service / Team)</b>				
	<b>Area / Activity</b>	<b>Outcome</b>	<b>Date Planned</b>	<b>Status</b>
		team leader so that they are better equipped to complete appraisals	face event scheduled as there are not currently any planned June or July 2016	
7.	LCC Managers Essentials	Enrol new Principals on this training course to support skills development for new role	Enrol by June 2016  Completion date tbc	Complete
8.	Fraud Awareness Session	Refresher information on Fraud Risks and Indicators including Fighting Fraud Locally, Bribery Act and money laundering	June / July 2016 – CoL leading	Complete
9.	CIPFA / SOLACE Good Governance Session	Refresher information on Good Governance and key changes / messages in the new guidance	September 2016	Pilot completed – update planned at next CARM meeting 1 <sup>st</sup> November 2016
10.	Update our workforce development plan (business strategy) with areas arising from appraisals, new recruits and our training and development plan.	Update CPD information  Ensure appropriate resources and support given to enhance team skills.	June 2016  July 2016	

**EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER & PROGRESS REPORT 2015/16**

**1.0 Purpose of Report**

- 1.1 To present the External Auditor's Annual Audit Letter for 2015/16 for Newark & Sherwood District Council.
- 1.2 The Annual Audit Letter summarises the key findings from the external audit work carried out by KPMG in 2015/16. It covers the 2015/16 Statement of Accounts and the Value for Money conclusion for the same year.

**2.0 Background Information**

- 2.1 KPMG presented details of the findings from the audit of the 2015/16 financial statements in their Annual Governance Report at the 7<sup>th</sup> September meeting of the Audit & Accounts Committee, and informed Members that they proposed to give an unqualified opinion on the statements.
- 2.2 At the same meeting KPMG also proposed to issue an unqualified opinion on the council's arrangements to secure economy, efficiency and effectiveness – the Value for Money (VfM) conclusion.
- 2.3 Unqualified audit opinions for both of these pieces of work were issued on 29<sup>th</sup> September 2016.

**3.0 RECOMMENDATIONS that:-**

**the Committee consider the External Auditor's Annual Audit Letter for 2015/16**

**Background Papers**

External Auditor's Annual Governance Report 2015/16  
N&SDC 2015/16 Opinion and Value for Money Conclusion

For further information please contact Jonathan Gorrie, Director KPMG LLP (UK) on 0121 2323645.

Nicky Lovely  
Business Manager and Chief Financial Officer – Financial Services



# Annual Audit Letter 2015/16

**Newark and Sherwood District Council**

October 2016



# Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jonathan Gorrie, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

# Headlines

**This Annual Audit Letter summarises the outcome from our audit work at Newark and Sherwood District Council in relation to their 2015/16 audit year.**

**Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.**

**VFM conclusion**

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 29 September 2016. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties.

Our Audit Plan recognised the risk around financial resilience and we undertook work to understand the Authority's response to this risk. To arrive at our conclusion we reviewed the Authority's Medium Term Financial Plan (MTFP) and outturn for 2015/16. The key findings were:

- The Authority recognises the budget pressures it faces in the medium term, most notably reductions in the Revenue Support Grant provided centrally. Projections in the revised plan show the need to make savings of £840k over the life of the current MTFP, following the agreement of council tax increases for future years.
- As a result of stronger financial management and housing and business rates growth, the Authority has been able to consistently benefit from year end budget underspends and budgeted contributions to reserves. The Authority's general fund reserves target is £2.9 million and the working balance at the end of 2015/16 was £2.939 million, after a significant contribution to earmarked reserves. At 31 March 2016 Authority has £22,111 million of earmarked reserves and the overall usable reserves, including the HRA and major repairs reserve represent 67% of annual gross expenditure. The MTFP includes £8.6 million as the amount available from usable capital receipts over the period 2015/16 to 2020/21.
- Government grant income is based on known settlement funding or reasonable assumptions concerning future entitlement. We have agreed amounts included in the MTFP for revenue support grant and baseline funding to the local government finance settlement from DCLG.
- The Authority has agreed policies on budgeting, council tax increases, reserves and value for money which we have reviewed. Whilst the Authority has made savings over a number of years without impacting significantly on front line services, it recognised that strategic solutions would be required. It has established its strategic direction for achieving savings which includes collaboration with other authorities, devolution of services and assets to local town and parish councils, changes to the arrangements for providing services and the relocation of the main council offices.
- The Authority flags a number of risks and uncertainties within its MTFP, including interest rates, inflation and the effect of the national living wage and apprenticeship schemes. We have reviewed the assumptions contained within the MTFP and concluded they are reasonable. The MTFP also includes sensitivity analyses to assess the impact of any changes in assumptions and we have assessed these and found them to be reasonable.
- The devolution process in Nottinghamshire and Derbyshire has not progressed as quickly as expected. Currently, there is no evidence that it is having an adverse effect on the Authority.

**Audit opinion**

We issued an unqualified opinion on the Authority's financial statements on 29 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

**Annual Governance Statement**

We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding.

## Section one

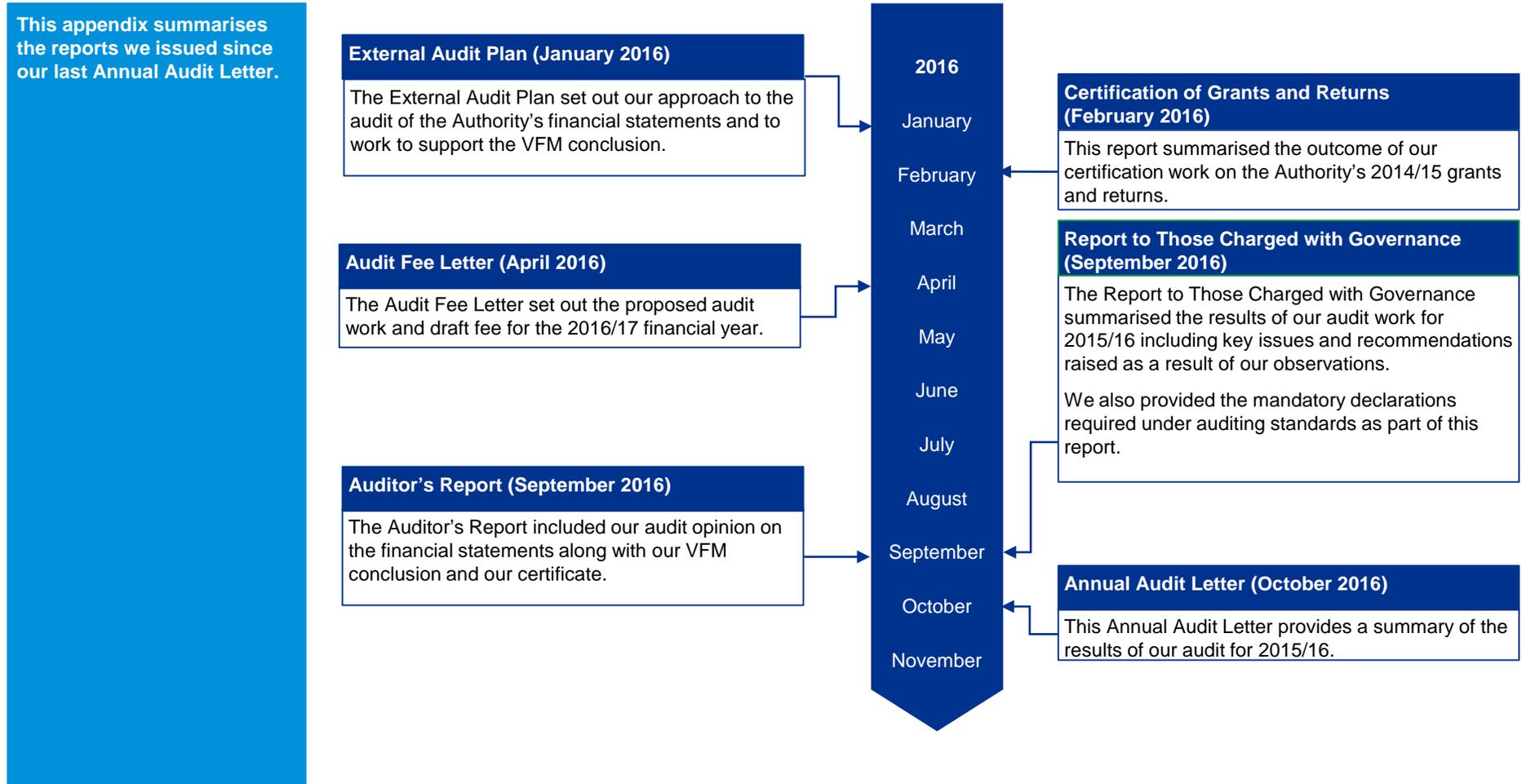
# Headlines

**This Annual Audit Letter summarises the outcome from our audit work at Newark and Sherwood District Council in relation to their 2015/16 audit year.**

**Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.**

<b>Whole of Government Accounts</b>	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.
<b>Certificate</b>	We issued our certificate on 29 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
<b>Audit fee</b>	Our fee for 2015/16 was £48,329, excluding VAT. This is in line with the planned fee. Further detail is contained in Appendix 2.

# Appendix 1: Summary of reports issued



# Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

### External audit

Our final fee for the 2015/16 audit at Newark and Sherwood District Council was £48,329 which is in line with the planned fee.

### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

### Other services

We charged £3,000 for additional audit-related services for the certification of the Pooling of Housing Receipts Return, which is outside of Public Sector Audit Appointment's certification regime.

In 2011 the Council engaged KPMG to provide services to assist the Council with the recovery of VAT in respect of sports fields and related facilities. The fee for this work of £30,500 has been charged in the current year.



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**COUNTER-FRAUD ACTIVITIES FROM 1<sup>ST</sup> APRIL 2016 TO 30<sup>TH</sup> SEPTEMBER 2016**

**1.0 Purpose of Report**

- 1.1 To inform Members of counter-fraud activity undertaken since the last update reported on 27<sup>th</sup> April 2016.

**2.0 Background Information**

- 2.1 An element of the role of the Audit & Accounts Committee is to provide assurance to the Council that its anti-fraud arrangements are operating effectively. In order to do this counter-fraud activity reports are brought to the Committee twice a year. These reports detail the number of cases detected, amounts lost, the outcome of cases and amounts recovered, together with any other counter fraud work that has been undertaken.

**3.0 Counter Fraud Detection**

- 3.1 The responsibility for conducting housing benefit fraud and error investigations and prosecutions has been subsumed by the Department for Works and Pensions Fraud and Error Service. The Housing Benefit fraud team was transferred to the Fraud and Error Service on 1<sup>st</sup> December 2015.
- 3.2 This means that since 1<sup>st</sup> December 2015 any housing benefit cases identified as potentially fraudulent are referred to the Fraud and Error Service for investigation. Referral procedures are in place, and since 1<sup>st</sup> December 2015, 36 cases have been referred to the Fraud and Error Service.
- 3.3 The NFI Council Tax Single Person Discount (SPD) exercise is now conducted every year. This matches Council Tax data against the Electoral Register. The data set was submitted on 1<sup>st</sup> February 2016, 1,275 matches have been investigated, of these 31 single person discounts have been cancelled so far, totalling £23,452.
- 3.4 The actual court costs charged to the Council since April 2016 are £13,058. These costs relate to cases of non-payment of Council Tax, as well as to fraud cases. The Revenues and Benefits Business Unit recovers costs from claimants wherever possible.

**4.0 Other Counter-Fraud Work**

- 4.1 An attempt at so-called "executive fraud" was made against Active4Today in March and was intercepted by staff before any money was lost. The scam works as follows:

A member of the team receives an email which appears to have originated from a manager within their own organisation. The email asks the recipient to make an urgent payment to a specified beneficiary, bypassing normal procedures if necessary. In reality, the fraudster has spoofed the email address of the manager. If the request is not independently verified, then the organisation risks paying funds directly in to the criminal's bank account.

- 4.2 In this case, due to the financial system requiring an authorised purchase order before payments can be made, the staff member contacted the manager by phone to ask for the Purchase Order number, and was told that the manager hadn't asked for the payment to be made. Close inspection of the email request to the person in the Business Unit also revealed that it had not come from the email address of the manager, although their name appeared on it.
- 4.3 In all cases such as this, an email is sent out to all staff to advise them of the attempt and to remind them to be vigilant if any requests for urgent payments are made.
- 4.4 Further controls are in place that requires changes of bank details to be independently checked with suppliers before any payments are made, and this would also have intercepted any such payment.

## **5.0 The National Fraud Initiative (NFI)**

- 5.1 The National Fraud Initiative (NFI) is a data-matching exercise where electronic data is collected from numerous agencies including police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The data collection is carried out by the Cabinet Office and is reviewed for any matches that might reveal fraudulent activity. e.g. a record of a person's death exists, but that person is still claiming state pension. The potential matches are sent to individual bodies for investigation to check if there is another, innocent explanation. Most data sets are currently submitted every two years, apart from single person discount data (see below) which is submitted every year.
- 5.2 Data was submitted for the 2016/17 exercise in February 2016 and possible matches are currently being investigated. The results will be available in the new year.
- 5.3 The NFI report covering the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2016 was published on 4<sup>th</sup> November 2016 and details the levels of different types of fraud found nationally. The report is available on the gov.uk website [NFI Report November 2016](#)

## **6.0 Future Counter Fraud Work**

- 6.1 Work is ongoing to procure a third party to carry out a refresh of the fraud risk register and to deliver further counter-fraud work identified as a result.

## **7.0 Equalities Implications**

- 7.1 There are no equality implications, as all cases of fraud and error are investigated, regardless of the characteristics of the persons involved.

## **8.0 Impact on Budget/Policy Framework**

- 8.1 Overpayments can be a serious drain on the Council's resources, whether due to fraud or error. Work undertaken to prevent and detect fraud and error and to reclaim overpayments can support the Councils' budget at a time of funding cuts.

8.2 Funding for counter-fraud work can be found from savings made in the cost of external and internal audit.

## **9.0 Financial Comments**

9.1 It is important that the Council establishes and maintains robust referral mechanisms with the Fraud and Error Service to ensure that potentially fraudulent housing benefit claims continue to be investigated and that sanction activity continues to take place to act as a deterrent.

9.2 Publicity is important as a deterrent, and controls in place must be maintained to detect and prevent potential frauds.

9.3 The NFI data matching exercise requires resources to investigate the potential matches, and it is a government requirement that Councils take part.

## **10.0 RECOMMENDATION**

**That Members note the content of the report.**

### **Reason for Recommendations**

**To promote a strong counter-fraud culture, it is important that Members are aware of the Council's response to fraud and the results of any actions taken.**

### **Background Papers**

None

For further information please contact Nicky Lovely on Ext 5317

Nicky Lovely  
Business Manager & Chief Financial Officer - Financial Services

**RESPONSES TO QUESTIONS RAISED AT THE PREVIOUS MEETING**

**1.0 Purpose of Report**

1.1 To provide answers to questions raised at the last meeting of the Audit & Accounts Committee.

**2.0 The Committee requested an update on progress with attaining the Procurement Card Industry Data Security Standard (PCIDSS).**

2.1 Progress is being made slowly, due to PCIDSS requirements increasing and the heavy workload of the ICT Business Unit due to the Moving Ahead project. In order to be fully compliant, the Council needs to provide positive responses to numerous questions in a 56 page questionnaire.

2.2 Officers are currently investigating an alternative payment card solution from a provider that offers a hosted merchant acquiring service that is fully PCIDSS compliant. If this alternative solution proves to be viable and cost effective, it will be implemented as soon as possible, removing the need for further PCIDSS compliance work to be undertaken in house.

**3.0 RECOMMENDATION**

**That Members consider the response provided.**

**Background Papers**

Nil

For further information contact Nicky Lovely, Business Manager and Chief Financial Officer - Financial Services, on extension 5317.

Nicky Lovely  
Business Manager and Chief Financial Officer - Financial Services

**WORK PLAN**

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
7 <sup>th</sup> September 2016	External Audit Annual Governance Report	Jonathan Gorrie/Helen Brookes (KPMG)	To gain assurance that the Council's Statement of Accounts are a true and fair representation of the Council's financial performance for the previous financial year and financial standing as at the Balance Sheet date, and that the Council has effective arrangements for achieving Value for Money
	Approval and signature of Statement of Accounts & Annual Governance Statement	Nicky Lovely / Nicola Pickavance	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified, and that arrangements in place support the achievement of the Council's objectives
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
30 <sup>th</sup> November 2016	Treasury Performance half-yearly report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy

	Revised Internal Audit Charter	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the responsibilities of Internal Audit and the associated responsibilities of the Council
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Results of the External Assessment of Audit Lincs	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Gain assurance that the Internal Audit function is operating effectively and that an action plan is in place to address any required improvements
	Annual Audit Letter	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance on the Council's Statement of Accounts and arrangements for achieving Value for Money
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
<b>30<sup>th</sup> November 2016</b>	Treasury Management Training Session	Arlingclose Ltd	Ensure that the Committee has the appropriate skills to be able to review the Council's Treasury Management Strategy and performance reports
<b>8th February 2017</b>	Private meeting with Internal & External Auditors	Lucy Pledge & Jon Gorrie	Ensure that the Committee has the opportunity to ask questions of and raise issues with the auditors, without officers being present
<b>8th February 2017</b>	Draft Treasury Strategy	Tara Beesley	Gain assurance that risks in relation to the Council's treasury management activities are to be managed in accordance with need and the Council's risk appetite
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks

	Combined Assurance Report	Nicky Lovely	Understand the level of assurance for critical systems, due diligence activities, key risks and projects
	Draft Annual Internal Audit Plan 2016/17	Nicky Lovely	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	External Audit VFM Approach	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that claims and returns are managed appropriately
	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place
	Strategic Risk Register	Richard Bates	Gain assurance that the Council considers its strategic risks and that these are being managed effectively
	Fraud Risk Assessment	Nicky Lovely	Gain assurance that the Council understands its fraud risks and that actions are in place to address them.
	Review of significant internal control issues highlighted in the Annual Governance Statement	Nicky Lovely	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
<b>26<sup>th</sup> April 2017</b>	Statement of Accounting Policies	Nicola Pickavance	Gain assurance that the Council has appropriate accounting policies in place that reflect the way items are treated in the annual Statement of Accounts
	IAS19 Pension Assumptions	Nicola Pickavance	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Internal Audit Progress Report 2015/16	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	External Audit Certification of Grant Claims and Returns	Jonathan Gorrie/Helen	Gain assurance that claims and returns have

		Brookes (KPMG)	been managed appropriately
	Initiating the Annual Review of the Effectiveness of the Internal Audit Function	Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
<b>TBA May/June 2017</b>	Annual Review of the Effectiveness of the Internal Audit Function	Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
<b>Report to July meeting</b>	Results of the Review of the Assessment of Effectiveness of the Internal Audit Function	Nicky Lovely	Gain assurance that the Internal Audit function is operating effectively and that an action plan is in place to address any required improvements