



Kelham Hall
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Newark
Nottinghamshire
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AUDIT & ACCOUNTS COMMITTEE

Date of Meeting: Wednesday 13 July 2016
Time: 10 am
Venue: G21, Kelham Hall

Telephone: 01636 655882
Email: helen.bayne@nsdc.info
Your ref:
Our ref:

Monday 4 July 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 13 JULY 2016, 10am

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 27 April 2016 3-8
5. Treasury Management Outturn Report 9-21
6. Internal Audit Progress Report 22-37
7. Annual Internal Audit Report 38-63
8. Setting the date of the Statement of Accounts Training Session 64-65
9. Audit Committee Work Programme 66-70
10. Date of Next Meeting- Wednesday, 14 September 2016 at 10am

Any questions relating to the agenda items should be submitted to Nicky Lovely Business Manager- 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)
D. Staples
Mrs P. Rainbow

Officers: N. Lovely
N. Pickavance
A. Hunt (Audit Lincs)
Lucy Pledge (Audit Lincs)
John Sketchley (Audit Lincs)
Helen Bayne (x2)

NEWARK & SHERWOOD DISTRICT COUNCIL

Minutes of the meeting of the **AUDIT & ACCOUNTS COMMITTEE** held in Room F35, Kelham Hall on Wednesday, 27 April 2016 at 10am.

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

Councillors: Mrs R. Crowe, R.A. Crowe, and D. Staples.

ALSO IN ATTENDANCE: Nicky Lovely (Business Manager Financial Services NSDC)
Nicola Pickavance (Assistant Business Manager- Financial Services NSDC)
Helen Brookes (KPMG)
John Sketchley (Audit Manager (Assurance Lincolnshire))
Amanda Hunt (Principal Auditor (Assurance Lincolnshire))
Ged Greaves- (Business Manager- Policy and Commissioning)

53. APOLOGIES FOR ABSENCE

Apologies for absence were submitted by G.P. Handley.

54. 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.

55. DECLARATION OF ANY INTENTION TO RECORD THE MEETING

None.

56. MINUTES OF MEETING HELD ON 10 FEBRUARY 2016

AGREED that the Minutes of the meeting held on 10 February 2016 be approved as a correct record and signed by the Chairman subject to an amendment to include the Chairman in recommendation c of the Internal Audit Progress report, minute no. 45.

57. TERMS OF REFERENCE FOR THE COMMITTEE

The Committee considered a report detailing the decision of full Council on 10 March 2016 to include express responsibility for reviewing the Council's corporate governance arrangements to ensure efficient and effective assurance were obtained. The remit of the Audit and Accounts Committee was determined by Council and formed part of the Council's Constitution.

Councillor Staples informed the Committee that he had discussed with the Deputy Chief Executive the inclusion of performance management within the remit. A report regarding this was shortly to be considered by the Councillors Commission.

AGREED That the report be noted.

58. STATEMENT OF ACCOUNTING POLICIES

The Assistant Business Manager- Financial Services was in attendance to present a report, detailing updates and amendments made to the Council's accounting policies in relation to the closedown of the 2015/16 financial year.

The Committee heard that changes to the standards relating to the Fair Value measurement of assets and to Levies had been made in the Code of Practice on Local Authority Accounting. The changes to Levies had required no amendments to the Council's policies. The Council's policy 1.10- Non Current Assets had been amended to incorporate the new definition of fair value with additional disclosure notes as required. The Council's policy 1.16- Interests in Companies and Other Entities had been updated to reflect the new position with Active4Today which began trading on 1 June 2015.

AGREED That the amended Statement of Accounting Policies be approved.

59. UNDERLYING PENSIONS ASSUMPTIONS FOR 2015/16 STATEMENT OF ACCOUNTS

The Assistant Business Manager- Financial Services presented an updated report detailing the underlying pension assumptions which had been used in the calculation of pension figures for 2015/16. Financial and demographic assumptions which had been used by the actuary were detailed, and figures for the accounts are produced using these and data supplied by the Council. The formal actuarial valuation was undertaken every three years.

AGREED that the assumptions used in the calculation of pension figures for 2015/16 be approved.

60. STRATEGIC RISK MANAGEMENT PROCESS EXAMPLE

The Business Manager- Policy and Commissioning was in attendance to present a report detailing a 'worked example' of the process of developing a strategic risk. The Committee had requested an example of the process at their previous meeting during consideration of the Strategic Risk Register. The Committee considered the report, and were able to see development of the risk and changes at review stage.

AGREED that the report be noted.

61. INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report detailing progress against the internal audit report for the period to 31 March 2016. The Committee noted that 97% of jobs were either complete or at draft report stage. 7 audits had been completed during the period 4 with High Assurance and 3 with Substantial Assurance, which were detailed, alongside other significant work undertaken.

Members considered the report and made the following comments:

- Members requested that a follow-up review of the Newark and Sherwood Homes Partnership be presented to the committee in 6 months to see how the partnership had worked to address the issues raised; and
- With regard to the audit of CCTV, Members noted that capacity issues within the team had been addressed with the appointment of an interim manager and officer. A follow-up could be considered in 6 months to ensure that recommendations had been implemented.

The Committee also congratulated Audit Lincs on their performance levels against the Internal Audit Plan.

AGREED that the report be noted.

62. OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS

The Audit Manager- Audit Lincs was in attendance to present a report detailing the current status of outstanding Internal Audit recommendations. It was noted that the majority of audits with outstanding recommendations had received either substantial or high assurance levels, and only one outstanding recommendation was high. The Committee agreed that the reviewed date rather than the original date of implementation be included in future reports so that the Committee could concentrate on those areas where an explanation was not given for failing to implement a recommendation, or where there was dispute over a recommendation.

AGREED that the report be noted.

63. COMBINED ASSURANCE REPORT

The Business Manager- Financial Services presented the Combined Assurance report for the period to January 2016. The report had been produced by Internal Audit with Business Managers and CMT to demonstrate assurance levels and identify any gaps. The report was then used to inform production of the Internal Audit Plan. The Committee considered the report, raising the following points:

- Within growth, 'Pay to Stay' had not been included as a red risk. It was explained that whilst it was considered that it was likely to result in significant work levels, this was not yet certain, and therefore it was not yet included as a critical activity with a "red" level of assurance. Consideration of the risk had been included in the review of strategic risks; and
- Within Strategic Risks, the 'G' or 'A' in the first column related to the assurance level given by management as to how the risks were being managed - either Green or Amber. In the second column, the Strategic Risks were listed and coloured as per the risk register.

AGREED that the report be noted.

64. ANNUAL INTERNAL AUDIT PLAN AND STRATEGY

The Business Manager- Financial Services presented the Annual Internal Audit Plan and Strategy. The Plan had been developed to provide an overview of assurance across the whole Council with reference to the Combined Assurance report, previous audit work,

discussions with managers and strategic and emerging risks. A greater emphasis had been placed on project based activities as well as covering critical service areas, due diligence areas and the day to day work of the Council.

Members queried how Ethics would be audited, and were informed that the process would include reviewing documents such as Registers of Interests, and the Code of Corporate Governance.

AGREED That the Internal Audit Plan and Strategy be approved.

65. EXTERNAL AUDITORS CERTIFICATION OF GRANT CLAIMS AND RETURNS AND PROGRESS REPORT

Helen Brooks, the Audit Manager KPMG was in attendance to present the external Auditors Certification of Grant Claims and Returns, a progress report and technical update. With regard to the certification of Grant Claims and Returns, it was noted that this was a highly complex area. A qualified result had been issued for the Housing Benefit Subsidy Grant claim, as some errors had been found, but it was explained that these were no more so than other authorities, due to the complexity of the process. The errors had been found within Voluntary National Insurance contributions, which were inconsistently applied for self-employed earnings. As a consequence of this the DWP had requested a review of all self-employed cases resulting in further work at an additional cost of £866.

10 cases of benefit underpayment had been identified and one overpayment to the value of £5.70. No further errors had been identified. The report detailed the fees for the Certification. Members felt that the cost of the work was disproportionate to the errors identified; however, it was acknowledged that the work was important due to the amounts of money paid in benefits per authority across the country.

Members then considered the progress report, noting the planned audit work, value for money conclusion, the inclusion of devolution as a risk for all authorities, and a focus of audit work on medium term financial planning. A KPMG workshop had also been held covering the early closure of the accounts in preparation for the bringing forward of the closure deadline for the 2017/18 accounts.

AGREED That the report be noted.

66. CHANGES TO ARRANGEMENTS FOR EXTERNAL AUDITOR APPOINTMENTS BEYOND 2017

The Business Manager- Financial Services presented a report summarising the changes to the arrangements for appointing an External Auditor at the conclusion of the 2017/18 audits. The appointment had to be made by 31 December 2017 and the process by which the appointment could be made was prescribed by the Local Audit and Accountability Act 2014.

The Council had three broad options through which to make the appointments, which were:

- 1- make a stand alone appointment through a specially created independent panel;
- 2- to make the appointment through a specially created joint panel; or

- 3- to opt in to a sector led body created by the Local Government Association who would make the appointment on the Council's behalf.

The Committee considered the advantages and disadvantages of each option in detail and also heard that at this stage there was no appetite to set up a local joint panel with any neighbouring authorities. The Business Manager- Financial Services informed the Committee that most colleagues at neighbouring authorities had made an informal expression of interest to opt in to a sector led body. It was hoped that this method of appointment would achieve economies of scale, lowering costs for participating authorities and reducing the likelihood of any conflict of interests. The Committee agreed that option three was the best approach.

AGREED that a formal expression of interest be made supporting the Local Government Association in setting up a national Sector Led Body by indicating the intention to 'opt-in' (option 3).

67. COUNTER FRAUD ACTIVITY REPORT

The Business Manager- Financial Services presented the Counter Fraud activity report, detailing activity undertaken since the last update to the Committee on 4 November. Since 1st December the housing benefit fraud team had been transferred to the Fraud and Error Service, and since that time any potential fraud cases were referred for investigation. Since 1st December, 8 cases had been referred to the service. Actual court costs charged to the Council since April were £8,025, which related to non-payment of Council Tax and fraud cases. Costs were recovered where possible. An attempt at executive fraud had been made against the Council but was intercepted by staff in financial services before any money was lost.

Details of the National Fraud Initiative were also reported, with Members noting that the results of the 2014/15 exercise would be available shortly. A further set of data had been submitted in February 2016.

AGREED That the report be noted.

68. AUDIT COMMITTEE WORK PROGRAMME

AGREED The Committee noted the work programme and proposed dates for the Statement of Accounts Training as

Wednesday 27 July 2016 or
Wednesday 3 August 2016 or
Wednesday 10 August 2016.

69. DATE OF NEXT MEETING

NOTED that the date of the next meeting was Wednesday 13 July 2016

The meeting closed at 11.28pm.

Chairman

TREASURY MANAGEMENT OUTTURN REPORT 2015/16

1. Purpose of Report

- 1.1. The purpose of this report is to give Members the opportunity to review the annual Treasury Outturn report which will be presented to Council on 11th October 2016 (copy attached at **Appendix A**).

2. Introduction

- 2.1. In January 2010 the Council formally adopted the CIPFA Code of Practice on Treasury Management which requires that the Council receives regular reports on its treasury management activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 2.2. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit and Accounts Committee and for the execution and administration of treasury management decisions to the section 151 officer, who will act in accordance with the Council's policies and practices.
- 2.3. The Treasury Strategy and Prudential Indicators for 2015/16 were approved by Council on 10th March 2015 and the Outturn report is the last report for the financial year, required by the Code. It has been prepared on the basis of the draft final accounts which appear elsewhere on the agenda. If there are significant changes resulting from the audit of the accounts they will be reported at the next meeting of this Committee.

3. RECOMMENDATION

That the Treasury Outturn position for 2015/16 be considered.

Background Papers

Nil

For further information please contact Tara Beesley on extn. 5328

Nicky Lovely
Business Manager & Chief Financial Officer – Financial Services

COUNCIL 11th October 2016

ANNUAL TREASURY REPORT 2015/16

1. Background

- 1.1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ('the Code') which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. Scrutiny of treasury policy, strategy and activity is delegated to the Audit and Accounts Committee.
- 1.2. 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.'
- 1.3. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.

2. Economic Background

- 2.1. The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs.
- 2.2. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%.

The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its Inflation Reports and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix B***.

- 2.3. The United Kingdom's vote to leave the European Union has brought turbulence in UK and European markets. This immediate volatility is expected to continue into the medium term and it is probable that there will be a weakening of the UK economy. The long term effects are still uncertain, and may be less severe than many feared. Arlingclose have been keeping

us up to date with regular daily emails. A summary of the immediate impact is shown in **Appendix C**.

3. Local Context

- 3.1. At 31/03/2016 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.
- 3.2. At 31/03/2016, the Council had £92m of borrowing and £15m of investments. The Council's current strategy is to maintain borrowing below the underlying level indicated by the CFR, and to use internal resources to cover the gap. This is referred to as internal borrowing.
- 3.3. 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.

4. Borrowing Strategy

4.1. Borrowing Activity in 2015/16

	Balance 1/4/15 £000	New Borrowing £000	Debt Maturing £000	Balance 31/3/16 £000
CFR	122,145			123,584
Short Term Borrowing	3,827	11,792	11,983	3,636
Long Term Borrowing	90,159	0	2,017	88,142
Total Borrowing	93,986	11,792	14,000	91,778
Other Long Term Liabilities	224	0	0	224
Total External Debt	94,210	11,792	14,000	92,002
Increase/(Decrease) in Borrowing £000				(2,208)

- 4.2. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 4.3. Affordability remained an important influence on the Council's borrowing strategy alongside the "cost of carry" - consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain lower than long-term rates, at least over the forthcoming two years, the Council determined it was more cost effective in the short-term to use internal resources instead of borrowing.
- 4.4. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.

- 4.5. **LOBOs:** The Council holds £16.5m 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. £3.5m of these LOBOS had options during the year, none of which were exercised by the lender.
- 4.6. **Debt Rescheduling:** The premium charge for early repayment of PWLB debt remained 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.
- 4.7. **Abolition of the PWLB:** In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The Council intends to consider using the PWLB’s replacement as a potential source of borrowing if required.

5. Investment Activity

5.1. Investment Activity in 2015/16

	Balance 1/4/15 £000	New Investments £000	Investments Redeemed £000	Balance 31/3/16 £000
Short Term Investments	17,088	135,425	137,961	14,552
Long Term Investments	0	0	0	0
Total Investments	17,088	135,425	137,961	14,552
Increase/(Decrease) in Investments £000				(2,536)

- 5.2. The Council has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Council’s investment balances have ranged between £13.6 and £29.3 million. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council’s aim is to achieve a yield commensurate with these principles.
- 5.3. Security of capital remained the Council’s main objective. This was maintained by following the Council’s counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.
- 5.4. Counterparty credit quality is assessed and monitored by Arlingclose, the Council’s treasury advisors, with reference to credit ratings; credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. Arlingclose provide recommendations for suitable counterparties and maximum investment periods.

A more detailed counterparty update has been provided by Arlingclose and is attached at **Appendix D**.

5.5. **Investments with Icelandic Banks** – Following a partial repayment in 2012, a further final amount of £297,943.62 was received on 24th September 2015. The Council has recovered 96.9% of its original investment of £2,000,000.

6. **Compliance with Prudential Indicators**

6.1. The Council can confirm that it has complied with its Prudential Indicators for 2015/16, which were set on 10th March 2015 as part of the Council’s Treasury Management Strategy Statement.

6.2. **Interest Rate Exposure:** These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates for both borrowing and investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments. The figure shown below for the variable rate for investments has exceeded the limit, although the Net effect is within the limit. All our investments are short term and there were no fixed rates that were comparable to variable rates, over the short term.

	Approved Limit for 2015/16 £m	Maximum during 2015/16 £m
<u>Fixed Rate</u>		
Borrowing	118.7	90.2
Investments	-5.3	0
Net Upper Limit for Fixed Rate Exposure	113.4	90.2
<i>Compliance with Limit</i>		<i>Yes</i>
<u>Variable Rate</u>		
Borrowing	29.6	4.4
Investments	-24.7	-29.3
Net Upper Limit for Variable Rate Exposure	4.9	-24.9
<i>Compliance with Limit</i>		<i>Yes</i>

6.3. **Maturity Structure of Fixed Rate Borrowing.** This indicator is to limit large concentrations of fixed rate debt and control the Council’s exposure to refinancing risk.

	Upper Limit %	Fixed Rate Borrowing 31/03/16 £m	Fixed Rate Borrowing 31/3/16 %	Compliance?
Under 12 months	15%	10.5	11.9%	Yes
12 months to 2 years	15%	4.5	5.1%	Yes
2 years to 5 years	30%	10.6	12%	Yes
5 years to 10 years	100%	23.2	26.3%	Yes
10 years and above	100%	39.4	44.7%	Yes

6.4. **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.

6.5. **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; borrowing at its peak was £94.6m.

	Approved Operational Boundary 2015/16 £m	Authorised Limit 2015/16 £m	Actual External Debt 31/03/16 £m
Borrowing	128.3	148.3	91.7
Other Long Term Liabilities	0.4	0.6	0.2
Total	128.7	148.9	91.9

6.6. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary of the treasury management activity during 2015/16. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

6.7. The Council also confirms that during 2015/16 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

7. RECOMMENDATION

That the Treasury outturn position for 2015/16 be noted.

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

Nicky Lovely
Business Manager & Chief Financial Officer – Financial Services

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK

referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

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
01/04/2015	0.50	0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015	0.50	0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015	0.50	0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015	0.50	0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015	0.50	0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015	0.50	0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015	0.50	0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015	0.50	0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015	0.50	0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015	0.50	0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016	0.50	0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016	0.50	0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016	0.50	0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average	0.50	0.38	0.45	0.43	0.54	0.76	0.99	0.96	1.14	1.43
Maximum	0.50	0.48	0.58	0.57	0.66	0.92	1.02	1.17	1.44	1.81
Minimum	0.50	0.17	0.35	0.43	0.51	0.55	0.84	0.68	0.73	0.85
Spread	--	0.31	0.23	0.14	0.15	0.37	0.18	0.49	0.71	0.96

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39

31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12
	Low	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	Average	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

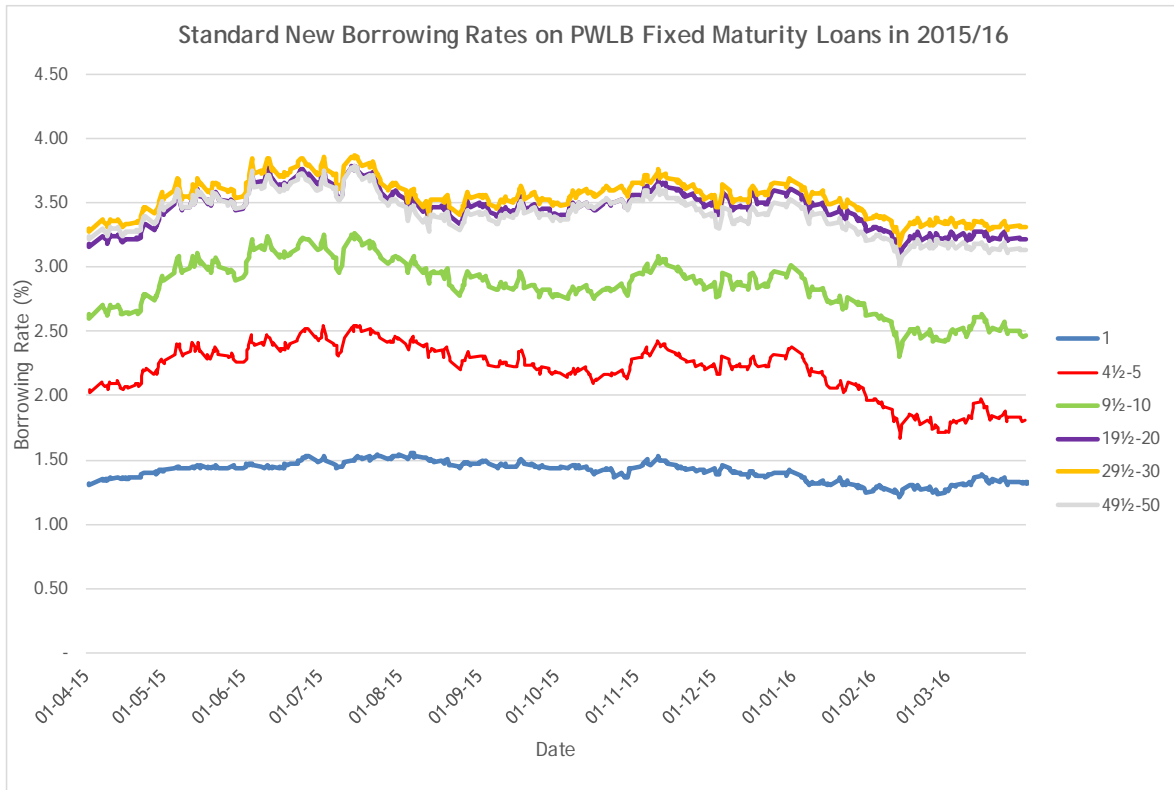


Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	Low	1.36	1.70	2.33	2.78	3.07	3.18

	Average	1.76	2.25	2.88	3.24	3.47	3.55
	High	1.99	2.60	3.28	3.61	3.79	3.87

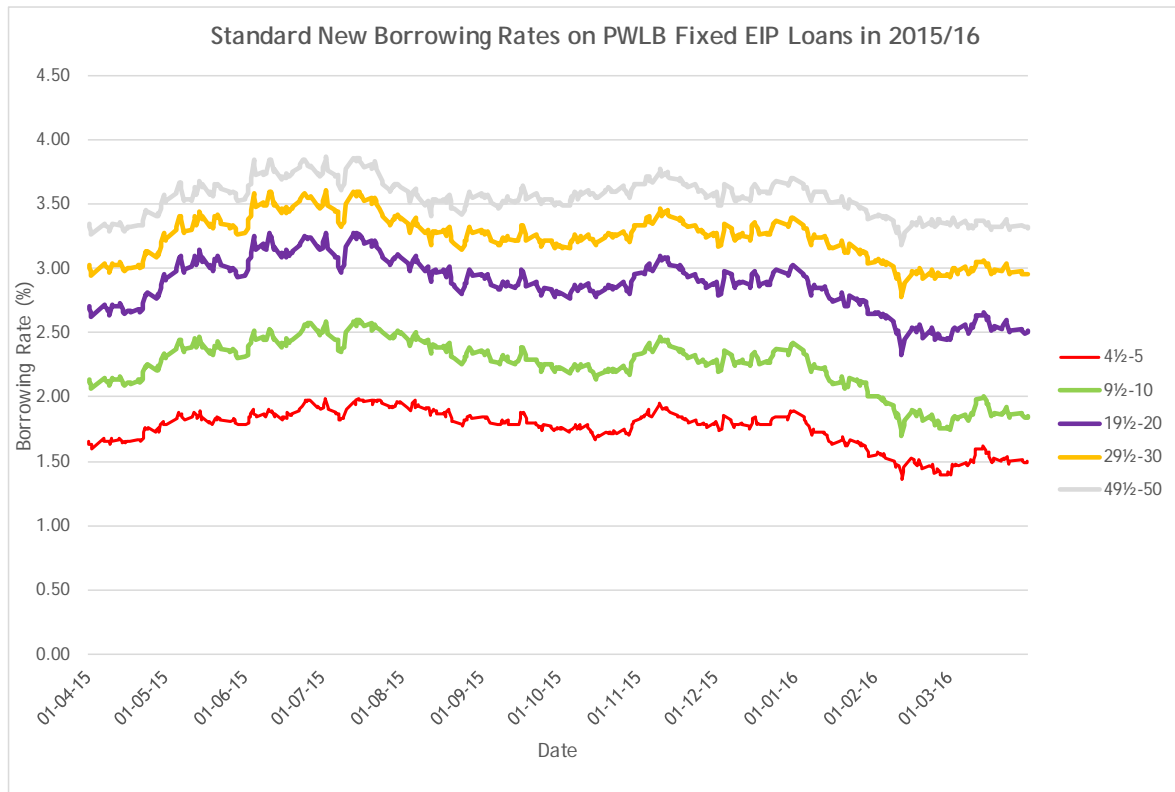


Table 4: PWLB Variable Rates

	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
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
Low	0.61	0.61	0.66	1.51	1.51	1.56
Average	0.63	0.66	0.71	1.53	1.56	1.61
High	0.67	0.69	0.78	1.57	1.59	1.68

Brexit Update

Further to our short briefing note this morning; following the United Kingdom's vote to leave the European Union, there has been turbulence in UK and European markets. This immediate volatility is expected continue into the medium term and it is probable that there will be a weakening of the UK economy. The long term affects are still uncertain, and may be less severe than many suggest. The situation in the markets has evolved throughout the day, and perhaps show that the impact will not be as severe as feared.

Gilt Yields UK Government Gil yields started the day by falling by around thirty basis points across each maturity, as investors rushed to quality. At time of writing they have recovered slightly at the longer end, but shorter maturities have fallen further.

Exchange Rates Sterling has regained some ground this morning, and is up to £0.73 to the dollar. The Euro has also recovered slightly at €0.9 to the dollar.

Equity Markets The FTSE 100 fell 8.5% during morning trading, and is currently down by 2.5% compared to yesterday's close. Banks, financial services and housebuilders are amongst the hardest hit. The Euro Stoxx 50 (the stock index of blue chip Eurozone firms) is down 7%.

The overall margin of victory of 52% to 48% masks significant regional variations, with London, Scotland and Northern Ireland all voting to remain overall, and Wales and England voting to leave. This has led to a number of political ramifications, including Scottish First Minister Nicola Sturgeon promising to reflect the 'will of the Scottish people', which in her words makes a new Scottish independence referendum 'highly likely'. However, she has also been in contact with London Mayor Sadiq Khan to discuss their 'common cause'.

In the near term, the timetable of David Cameron's departure as Prime Minister, the decision not to trigger article 50 immediately and the Bank of England's response to market turbulence will be the most important issues to watch. Sterling is expected to stabilise below its recent average, which should increase inflation from its current low level in the shorter term and help to insulate the export sector from too harsh a shock. The MPC is likely to meet in a special session before its scheduled 14th July Meeting, to discuss possible interest rate changes and an increases in quantitative easing. We believe that they will look through any spike in inflation and that rates will continue to be low for longer.

In the longer term, UK GDP is likely to be lower than previous forecasts, with a reduction of 0.5% for 2016, and reduced expectations for growth in 2017. Fundamental issues, such as what trade arrangements the UK is ultimately able to negotiate and the effects of Brexit on the City of London and the wider economy including the public sector will dictate the effect on the UK.

As stated in a previous update, Arlingclose remains comfortable with clients making unsecured investments in UK institutions for the periods outlined in our counterparty packs issued on 31st May.

Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. As part of this, Bank Nederlandse Gemeeten was moved to the list of bond issuers from the unsecured

bank lending list and assigned an increased recommended duration limit of 5 years. The Council did not make use of these long-term investment options during 2015/16.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Authority therefore increasingly favoured pooled funds over unsecured bank and building society deposits.

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 May 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 2016 / 17



Date: *May 2016*

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Introduction

- 1 The purpose of this report is to:
 - Advise of progress being made with the Audit Plan
 - Provide details of the audit work during the period
 - Raise any other matters that may be relevant to the Audit and Accounts Committee role

Key Messages

- 2 The Internal Audit plan for 2016/17 has been scheduled. There are currently 28 audits/jobs, including two audits transferred from 2015/16. Progress so far is:
 - 1 audits/jobs complete 4% of jobs
 - 1 audits at draft report stage 4% of jobs
 - 1 audits at fieldwork stage 4% of jobs
 - 0 audits at client brief/scoping stage 0% of jobs
- 3 We are pleased to report that we have issued four reports since the last Committee. One of these provided High level of assurance and three provided Substantial level of assurance. We have also completed the review of the Mansfield Crematorium Accounts.
- 4 There are currently no 2016/17 recommendations due for implementation before May 2016. Appendix 2 shows those audits from previous years which have recommendations outstanding.

Internal Audit work completed from April to May 2016

5 The following audit work has been completed and a final report issued:

High Assurance	Substantial	Limited	Low
<ul style="list-style-type: none"> ■ Corporate Plan 	<ul style="list-style-type: none"> ■ ICT Adaptability ■ Sundry Debtors ■ VAT 	<ul style="list-style-type: none"> ■ None 	<ul style="list-style-type: none"> ■ None

Note The Audit 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 1.

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

Corporate Plan

Development of Strategic Priorities

The Council has arrangements in place to ensure that the strategic priorities are being reviewed and developed. The process for development includes:

- Information to Councillors and identification of their priorities
- Internal consultation with Business Managers
- Plans to seek approval from full Council
- Plans for communicating the approved priorities to internal and external stakeholders

Delivery Plans

There are effective processes and systems in place for the management of Business Planning linked to the strategic priorities. Areas of good practice include:-

- Development of summary business plans which include delivery of strategic priorities
- Involvement of staff in developing delivery plans and key objectives for the business units
- Performance linking to key business objectives
- Development of strategic priorities in line with available funding
- Engagement and communication with partners in joint delivery areas.

Debtors

The arrangements in place for the administration of Sundry Debtors are generally operating efficiently to ensure the effective administration of the debtors system. We found good practice in some areas including:

- Existence of sufficient staff in the administration of the sundry debtors, which demonstrates that management are continuing to review the arrangements and seek improvements especially where there are significant changes to key staff.
- Improved process for setting up new debtor account numbers is in place. Documentation is retained to support all customer accounts created.
- Revenues and Benefits continue to work closely with Business Units and Financial Services and share matters of concern e.g. system errors.
- Arrangements are in place for the reconciliation of Sundry Debtors and correct posting of cash receipting files onto the General Ledger.

There were some areas where improvements in control are necessary including regular reviews of the Write-off Policy and reports identify outstanding debts that are difficult to collect to ensure further action is taken.

ICT Adaptability

At this stage the indications are that the ICT Service is well placed to undertake its role in the move to the new offices and the increase in agile working. We found a number of areas where processes are sound:-

- The Moving Ahead project has a robust governance structure and there is a Programme Initiation Document (PID) for the main (over-arching) programme.
- A risk register is in place covering the key risks faced by the moving ahead programme and the workstreams that relate to ICT.
- IT projects outside of the Moving Ahead programme are monitored by the ICT Manager and then shared with the Chief Information Officer who then reports progress to the Chief Executive.
- Additional resources requirements have been identified to help ICT's capacity to deliver the required changes. Steps have been taken to appoint additional staff including appointing a temporary ICT Technical Projects Officer.

We made recommendations which will improve the relevance of information provided within several performance indicators.

VAT

There are effective arrangements in place which ensure that the VAT returns are made promptly and accurately and that VAT is accounted for correctly. There are good processes in place which ensure that:-

- Responsibility for VAT is allocated and the staff in post are fully trained with their knowledge updated.
- Specialist knowledge, updates and support is available from the consultants employed by the Council.
- VAT returns are completed on time and are independently checked prior to sending to HMRC.

- Adjustments made to reports are documented and all supporting documentation is maintained.
- Transactions made with the wholly owned companies are treated correctly.

We have made some recommendations to strengthen the processes in place concerning the production of guidance and completion of the partial exemption calculation promptly.

Other Significant Work

7 **Mansfield Crematorium**

The audit of the 2015/16 accounts has been completed. The audit ran smoothly and was completed on time. There were no significant issues to report this year.

8 **Cattlemarket Rent Calculation**

We are currently liaising with the Cattlemarket Accountant to receive clarification on a number of figures and compile the rent calculation for 2015/16 rent.

Audits in Progress

9 The position of the remaining 2015/16 audits are:-

Audits at Draft Report Stage

- Partnership Working
- Financial Regulations
- Strategic Risks
- Performance Management
- ICT Payment Card Industry Data Security Standard (PCIDSS)
- Procurement

Audits in Progress

- Key Controls

10 The following 2016/17 audits have commenced:-:-

Audits at Draft Report Stage

- Housing Benefits

Audits in Progress

- Property, Plant and Equipment

Performance Information

11 Our current performance against targets is shown below:-

Performance Indicator	Target	2016/17 Actual @ 31/05/16
Percentage of plan completed.	100% (Annual year end)	6%*
Percentage of key financial systems completed.	100% (Annual year end)	18%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented.	100%	None due
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%	■ 100%
c) Draft report issued within 2 months of fieldwork commencing	■ 80%	■ 100%
Client Feedback on Audit (average)	Good to excellent	None returned

*Indicator based on the number of days spent against the total number of days within the revised annual plan (4% of jobs have been completed).

- 11 All of the audits have been scheduled in and the plan is currently on target to this schedule.
- 12 The table represents the results of 2016/17 but we are still progressing the audits and follow-up the implementation of recommendations for 2015/16.

Other Matters of Interest

13 Audit Committee Training Event – ‘Audit Committee Effectiveness’

The Notts Audit Group have arranged a free training event for Members of Nottinghamshire Audit Committees in June. The event is to be held at Gedling Borough Council with KPMG providing the training covering:-

- What make an Audit Committee effective
- Risk Management
- Annual Governance Statement
- Strengths and areas for action

14 External Assessment

The revised Public Sector Internal Audit Standards require that external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

Following a procurement exercise Assurance Lincolnshire has appointed CIPFA to carry out it's first external assessment. This is planned to commence at the end of August 2016 and the results will be reported back to this Committee.

Appendix 1

Assurance Definitions¹

2016/17

High	<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>
Substantial	<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	<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>
Low	<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>

¹ 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.

Appendix 2 - Outstanding recommendations as at May 2016

Audit Area	Date	Assurance	No.of Agreed Recs	Implemented /Closed	Outstanding*		Revised Implementation Date	Not Due
					H	M		
ICT								
ICT - UNIFORM	Sept'15	Some Imp. Needed	14	7	0	7		0
Safety								
Equality and Diversity	Nov'15	Substantial	7	5	0	2	30/04/2016	0
Strategic Housing Strategy	Jan'15	Some Imp. Needed	4	3	0	1	31/05/15 revised to 31/03/16 revised to 31/05/16	0
CCTV	Feb'16	Substantial	5	0	0	3		2
Total			30	15	0	13		2
*Those due with no revised date agreed.								

Appendix 3 - Internal Audit Plan & Schedule 2016/17

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Critical Service Activities	84					
<u>Director Communities</u>						
Transport/Vehicle Fleet maintenance	10	Cost of maintaining and using Council vehicles is accurately and efficiently recorded and monitored.	August			
Security Audit	8	The building, it's physical and information assets are secure.	February			
<u>Director Customers</u>						
ICT Audit – Applications	10	Review of one or more key applications.	September			
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			
Partnership – Active4Today	10	Effective partnership arrangements are in place	September			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		ensuring delivery of the objectives set for the Company.				
<u>Director Safety</u>						
Anti Social Behaviour and Domestic Violence	10	Compliance with The Anti-Social Behaviour, Crime & Policing Act 2014 and other Council policies.	July			
Emergency Planning	10	Arrangements are in place which enable the Council to effectively manage an emergency planning situation.	February			
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			
Due Diligence	93					
<u>Director of Resources</u>						
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			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
NNDR	8	The NNDR due is collected.	January			
Property, Plant and Equipment	7	Cyclical System Review	June	June 2016		Fieldwork Underway
Benefits	15	Cyclical System Review	May	May 2016		Draft Report
Director Safety						
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			
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			
Risk Management	8	There are arrangements in place which ensure that the risks are identified, monitored and mitigated.	November			
Key Projects	30					
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	November			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		and systems in place for project overall.				
Moving ahead – New build capital project	12	Capital expenditure on the new build offices is effectively managed.	January			
Strategic and Emerging Risks	20					
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			
Other relevant Areas	84					
Mansfield Crematorium	5	Annual review of accounts.	April	April	May 2016	Completed
Gilstrap Accounts	1	Annual review of accounts.	July	July		
Cattle Market	6	Annual audit of rental fee and additional work requested.	May			Discussions ongoing.
Newark and Sherwood Homes	45	Internal Audit Plan 2016/17	Various			Terms of Reference Documents completed

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
						and passed to client for comment.
Southwell Leisure Centre	5	Financial Processes	November			
Combined Assurance	15	Updating assurances on the Council's assurance map with service managers and helping to co-ordinating the annual status report.	October			
Follow-up of previous audit reports	7		Ongoing			
Non-Audit	41					
Advice & Liaison	15		Ongoing			
Annual Report	3		Ongoing	April		
Audit Committee	10		Ongoing			
Review strategy and planning	3		Ongoing			
Contingency	10		N/A	N/A	N/A	N/A
Grand Total (Revised)	352					

ANNUAL INTERNAL AUDIT REPORT

1.0 Purpose of Report

1.1 To receive and comment upon the Annual Internal Audit Report 2015/16.

2.0 Introduction

2.1 The purpose of the annual internal audit report (**Annex A**) is to provide a summary of Internal Audit work undertaken during 2015/2016 to support the Annual Governance Statement by providing an opinion on the organisation's governance, risk management and internal control environment.

2.2 The Annual Internal Audit Report:-

- Includes an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and internal control environment.
- Discloses any qualifications to that opinion, together with the reasons for the qualification.
- Summarises audit work undertaken, including reliance placed on the work of other assurance bodies where applicable.
- Draws attention to any issues that are particularly relevant to the Annual Governance Statement.
- Summarises the performance of the internal audit function against its key performance measures.
- Comments on compliance with standards.

2.3 Whilst we cannot provide absolute assurance on the governance, risk and internal control environment we can provide reasonable assurance that it is working as intended.

2.4 The opinion should be considered as part of the process to prepare the Annual Governance Statement by the Audit and Accounts Committee and relevant Council officers.

3.0 RECOMMENDATION

That the Audit & Accounts Committee consider and comment upon the annual internal audit report.

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nicky Lovely
Business Manager & Chief Financial Officer – Financial Services

Newark & Sherwood District Council

Internal Audit Annual Report – 2015/16



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

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Principal Auditor

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The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

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Distribution List

Chief Executive
Directors
External Audit



Management Summary

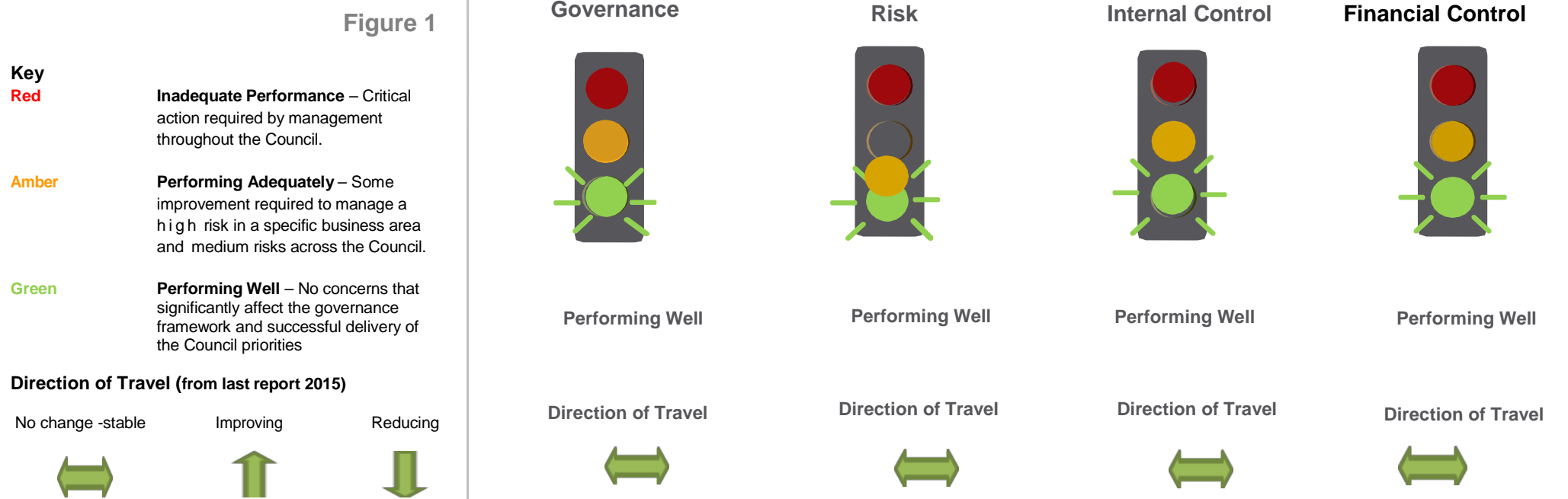
Purpose of Annual Report

- The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular:-
 - Include an independent opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it;
 - Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion;

- A statement on conformance with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP);
- Draw attention to any issues particularly relevant to the Annual Governance Statement.

Annual Opinion

- For the twelve months ended 31 March 2016, based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of Newark and Sherwood's arrangements for governance, risk management and control is shown in **Figure 1** below:-



How we came to our opinion

Governance

3. Good governance underpins everything the Council does and how it delivers services often comes under close scrutiny. It is therefore vital that resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources. This ensures that the Council achieves the desired outcomes for the people of Newark and Sherwood.
4. The Audit and Accounts Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement.
5. The Council's Corporate Governance arrangements were reviewed in 2014/15 through a self-assessment process and found the Council to have strong governance arrangements in place that conform to best practice guidance. The review provided substantial assurance and action has been taken resulting in the implementation of all but one of the recommendations made.

6. Taking the above information into account we have assessed the governance framework as **green** - performing well.

Risk and Internal Control

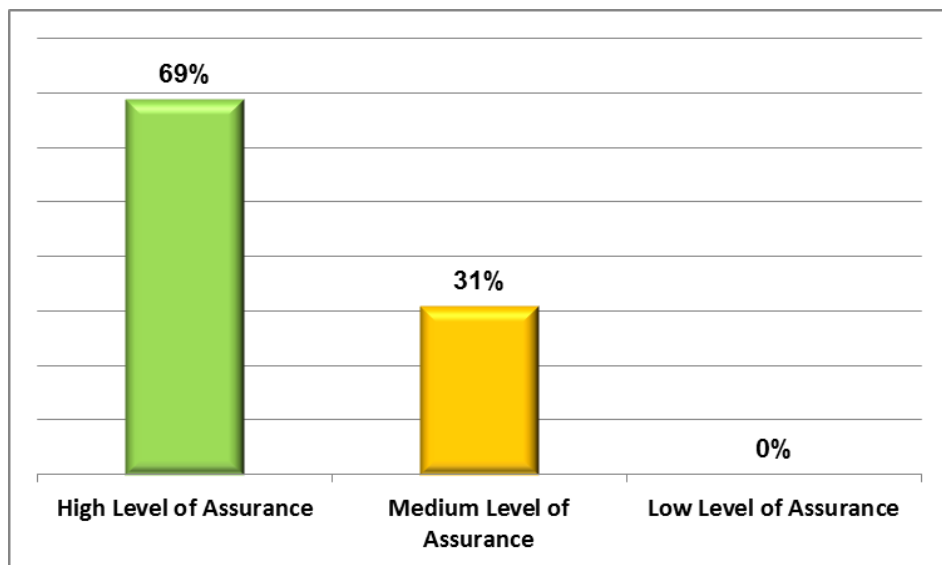
7. We took account of the outcome of our internal audit work during the year. Although some of our reports are at draft report stage this did not adversely affect my overall opinion given our findings. Details of work completed can be found in **Appendix 1**.
8. We gave one area a 'limited' assurance opinion on the activity.

Payment Card Industry Data Security Standard - The authority is not currently able to demonstrate PCI DSS compliance. Progress has been made since an earlier audit review was undertaken in October 2012 but a gap analysis shows that further work is needed to demonstrate compliance.

Combined Status Report

9. The Council produced its Combined Assurance report in March 2016. **Figure 2** provides the summary of the overall assurance status on the Council's critical activities¹ – it shows there are no areas identified where assurance is low. There has, however, been an increase in the number of activities shown as amber which is a reflection of the economic position, changes in legislation and future uncertainty.

Figure 2 – Overall Assurance Status on Critical Activities



10. Looking ahead – the report identified the following key areas of focus for the Council:-

- **Service Delivery Models** – looking at the most appropriate service delivery methods as any changes to funding and local government takes shape.
- **Business Rates** –planning to implement 100% business rates retention from 2020 – managing any associated risks and opportunities.
- **Finances** - the on-going financial austerity continues to present difficult challenges and is reflected in the Council's strategic risk register – which are reviewed on a regular basis.
- **Effective project management** – a number of key projects are vital to the success of the Council to provide modern services and achieve significant savings.

¹ Those identified by senior management as having significant impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss or impact on people

11. During the year we undertook a number of consultancy engagements and other work for the Council: These were:
- **Partnership working – Newark and Sherwood Homes**
 - A number of improvements actions were recommended together with quick wins designed to help the effectiveness of the partnership.
 - **Other areas included:**
 - Gilstrap accounts
 - Mansfield crematorium
 - Flood grant
 - Cattle market – rent collection / fee modelling
12. Taking all of the above information into account we have assessed the internal control environment as **green** – performing well.

Risk Management

13. There is an established framework in place for the Council to manage the key risks facing services and successful delivery priorities with regular reporting to management and members.
14. The Audit and Accounts Committee continues to receive regular updates on how the Council manages its risks.
15. An audit of how the Council manages its strategic risk provided a 'substantial' audit opinion. On this basis we have assessed risk management as **green** – performing well.

Financial Control

16. Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts. During the year we reviewed:
- Budgetary Control
 - Creditors
 - Debtors
 - VAT
 - Council Tax
 - Key Financial Controls
 - Financial Regulations
17. The Council has good financial management processes in place – that generally work well. We are pleased to report that we were able to provide 'high' or 'substantial' assurances opinions on the areas we reviewed. On this basis we have assessed financial control as **green** – performing well.



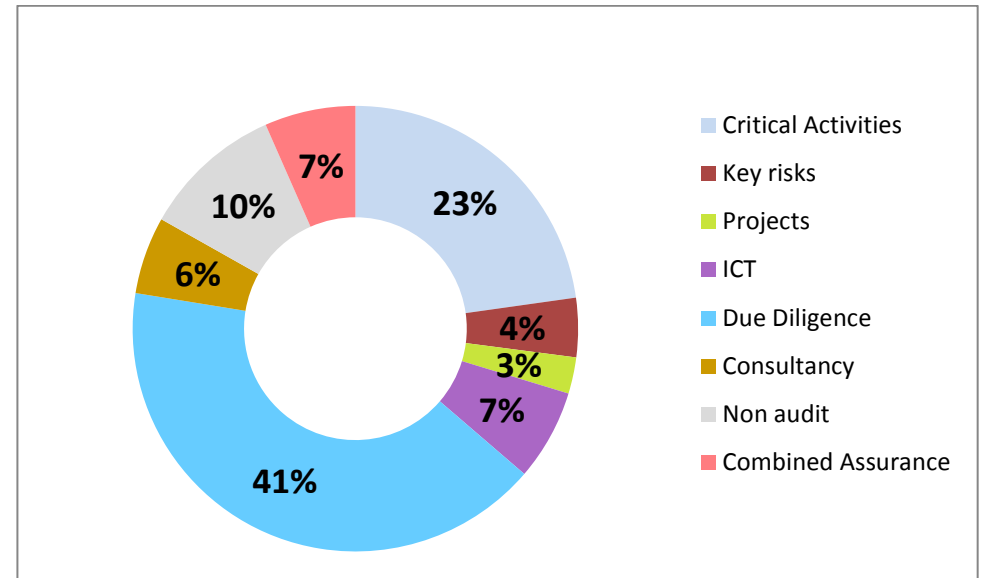
Roles and Responsibilities

18. The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing *independent risk based and objective assurance* and *insight* on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.
19. Where Internal Audit work has identified improvements, we have worked with management to agree appropriate corrective actions and a timescale for improvement. It is the responsibility of management to implement the agreed actions.
20. The Council is responsible for developing and publishing an Annual Governance Statement – reporting how they have monitored the effectiveness of their governance arrangements during the year – providing information on any significant governance issues.
21. The Annual Internal Audit Report should inform the Annual Governance Statement - we recommend that the 'low and limited' assurance areas identified in paragraphs 7 are considered in the development of the Council's Annual Governance Statement. Statement – together with the information contained in the Council's Combined Assurance Status Report (summarised in paragraph 8).

Scope of Work

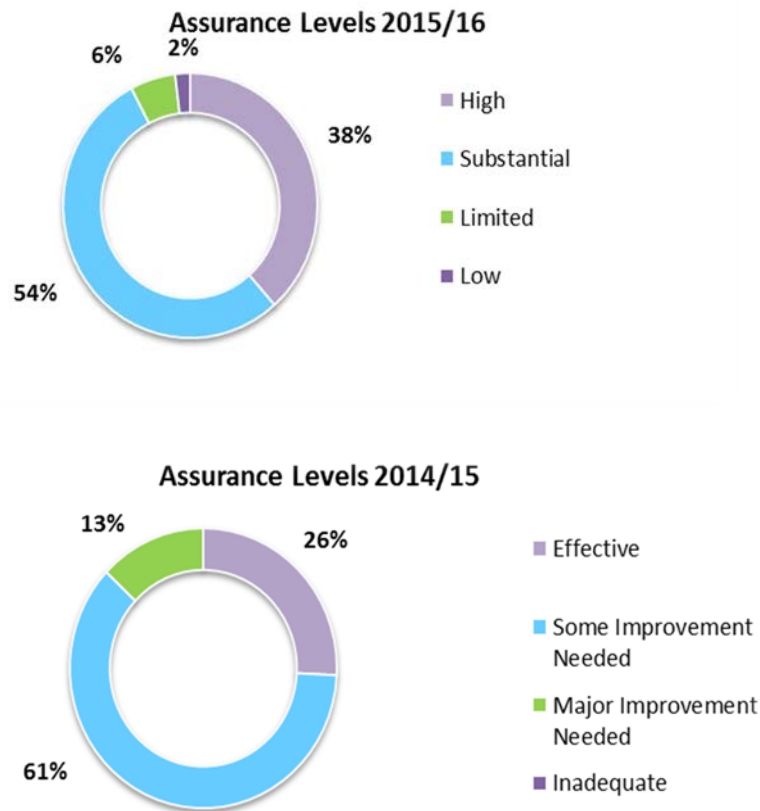
22. Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus.
23. Audit and Accounts Committee approved the 2015/16 original audit plan of 345 days on the 11th February 2015. We have delivered 303 days compared to the revised plan of 327 days and 28 review areas – **97%** of the jobs within the revised plan by the end of the year. **Figure 3** shows the audit areas we covered during the year.

Figure 3 – Audit Areas covered in 2015/16 Plan



24. The charts in **Figure 4** shows the assurance opinions given in 2015/16 compared to those in 2014/15. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment.

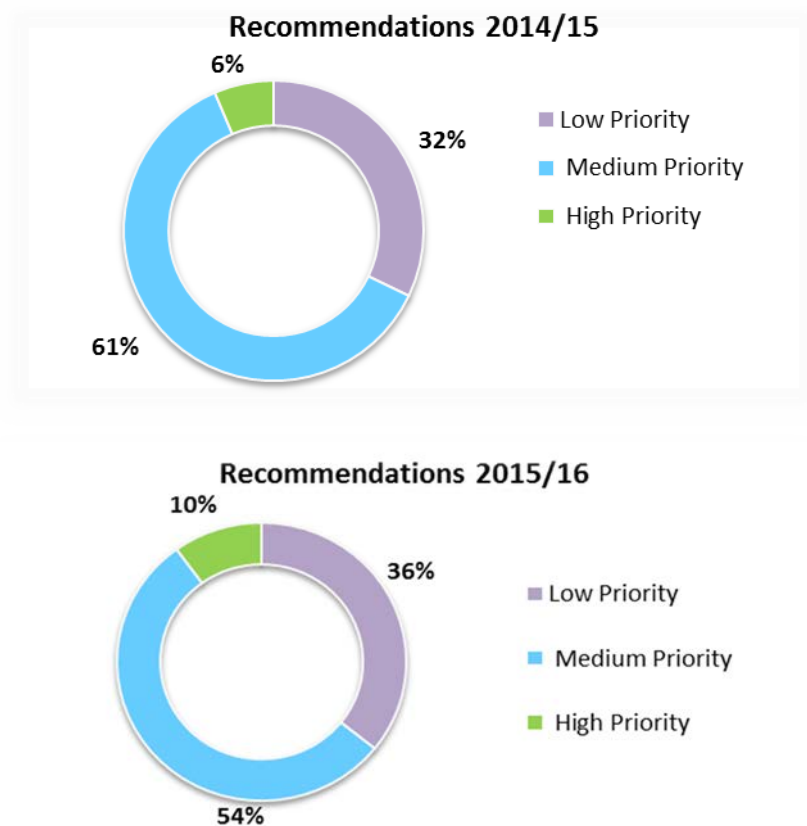
Figure 4 – Comparison of Assurances



25. We can see from the charts that the overall assurance levels have improved during 2015/16 with more High and less Limited and Low assurance levels. Details of systems reviewed can be found in Appendix 1.

26. The charts in **Figure 5** show the comparison of internal audit recommendations made 2014/15 and 2015/16. Details of systems reviewed can be found in **Appendix 1**.

Figure 5 – Recommendations Made



27. We track the implementation of agreed management actions. Over the past year management have implemented **85%** of recommendations due by the 30th April 2016. Details of outstanding recommendations are shown in **Appendix 1**.

Restrictions on Scope / Changes to plan

28. In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had difficulties in gaining access to staff which resulted in some delay or inability to deliver planned work within the expected timescales.
29. A number of audits were removed from the audit plan at the request of management – these were generally due to re-scheduling the area to 2016/17 due to the availability of staff and the position of the project. The areas included:-
- Property, plant and equipment
 - HR
 - Housing Benefits
 - Council Offices – vacation and new build 2
30. I do not consider these changes to have had an adverse effect on the delivery of my overall opinion

Other Significant Work

31. We delivered the agreed annual internal audit plan for Newark and Sherwood Homes of 73 days.

Delivery of internal audit plan 2015/16

32. The Audit and Accounts Committee approved the 2015/16 audit plan in February 2015. We have delivered **97%** of the revised plan.
33. Internal Audit's performance is measured against a range of indicators. The table below **Figure 6** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement against our targets.

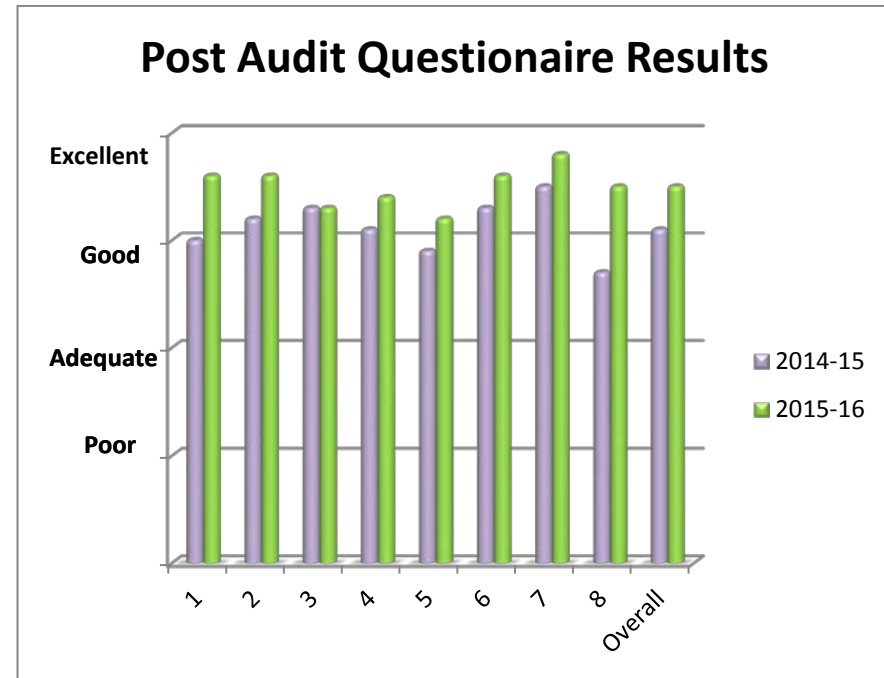
Figure 6 Performance on key indicators

Performance Indicator	Target	Actual
Percentage of plan completed - Days. Percentage of plan completed - Jobs	100% (revised plan)	92% 97%
Percentage of key financial systems completed.	100%	84%
Percentage of recommendations agreed.	100%	99%
Percentage of 2015/16 recommendations due implemented.	100% or escalated	85%
Timescales: Draft report issued within 10 working days of completing audit	100%	100%
Final report issued within 5 working days of closure meeting / receipt of management responses.	100%	100%
Period taken to complete audit within 2 months from fieldwork commencing to the issue of the draft report.	80%	93%
Client Feedback on Audit (average)	Good to excellent	Good to Excellent

Effectiveness of Internal Audit

24. We regularly canvass opinions on audit planning, report and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor.
35. The table in **Figure 7** outlines the responses by management on our service. For 2015/16 there was a 56% questionnaire return rate, the overall average rating for the service was good and all but one area had improved. We are pleased to report that all areas have improved from 2014/15.

Figure 7 – Client Feedback



Questions:

Audit Planning

1. Consultation on audit coverage
2. Fulfilment of scope and objectives

Audit Report

3. Quality of report coverage
4. Accuracy of findings
5. Value of report

Communication

6. Feedback during the audit
7. Helpfulness of auditor(s)
8. Prompt delivery of report



Quality Assurance

36. We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.
37. Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.
38. Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
39. Our Quality Assurance Framework (**Appendix 2**) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment.
40. There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.
41. Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following areas of development:
- Update Internal Audit Charter and practice manual following revision of PSIAS
 - Implement upgrade to audit software
 - Update reporting template to help focus on risk and added value
 - Improve clarity over consultancy engagement terms of reference
 - Update the terms of reference template with key dates to help timely delivery of audit work and contemporary reporting
 - Further develop Assurance Lincolnshire collaboration.
 - Continuing professional development around new and emerging practice guidance eg PSIAS, Fighting Fraud Locally, CIPFA / SOLACE delivering good governance.
- A copy of the detailed action plan can be found in **Appendix 3..**
42. An external quality assessment has been commissioned to take place this Autumn.
43. Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work.

Appendix 1

Internal Audit Assurances Given 2015/16

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding				Notes
					High	Medium	Low	Not Yet Due	
Planning Policy	July 2015	Effective	1	1	0	0	3	0	Completed
Planning Applications	March 2016	High	2	0	0	0	2	2	Completed
HRA Business Plan	February 2016	Substantial	2	1	0	0	1	1	Completed
NSH Partnership		N/A – Advisory report							Second draft report issued in March and closure meeting booked for June.
Human Resources									Removed and added to 2016/17 plan due to availability of auditees.
Homelessness	October 2015	High	0	0	0	0	1	0	Completed
National Civil War Centre	September 2015	N/A – Advisory report	10	8	1	1	3	0	Revised implementation date agreed.
ICT – Review of Service	April 2016	Substantial	2	0	0	0	0	2	Completed
Refuse and recycling	November 2015	Substantial	3	2	0	1	1	0	Completed
Capital Programme	January 2016	High	0	0	0	0	0	0	Completed
Performance Management		Substantial*							Draft report with auditee
Corporate Planning	April 2016	High	0	0	0	0	2	0	Completed
Budgetary Control	October 2015	High	1	1	0	0	2	0	Completed

Appendix 1

Internal Audit Assurances Given 2015/16

Outstanding									
Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	High	Medium	Low	Not Yet Due	Notes
Creditors	February 2016	High	2	0	0	0	1	2	Completed
Debtors	May 2016	Substantial	4	0	0	0	5	4	Completed
VAT/Tax	May 2016	Substantial	4	1	0	0	3	3	Completed
Financial Regulations and Management		High*							Draft Report with CMT
Procurement		Limited*							Draft report – further work ongoing
Key Control Testing									Work in progress nearing completion.
Property, Plant and Equipment									Postponed to 2016/17 due to auditee availability.
Council Tax	March 2016	High	1	0	0	0	2	1	Completed
Benefits									Postponed to 2016/17.
ICT - PCIDSS		Limited*							Draft report with CMT.
Customer Services – Cash Receipting	March 2016	Substantial	3	0	0	0	2	3	Completed
Equality and Diversity	November 2015	Substantial	7	4	0	0	2	3	Completed
Council Offices – Vacation and new build	February 2016	N/A – Advisory report							Completed
Council Offices – Vacation and new build									Removed and added to 2016/17 plan due to progress of the project.

Appendix 1

Internal Audit Assurances Given 2015/16

Outstanding									
Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	High	Medium	Low	Not Yet Due	Notes
Strategic Risks		Substantial*							Draft Report – awaiting closure meeting
Waste, Litter and recycling – risk	December 2016	High	1	0	0	0	1	1	Completed
Mansfield Crematorium May	May 2015	N/A							Completed
Gilstrap Accounts	August 2015	N/A							Completed
Cattle Market 2014/15 Rent Calculation	December 2015	N/A							Completed
Cattle Market – Fee modelling	May 2015	N/A							Completed – further work ongoing
Flood Grant	December 2015	N/A							Completed
Combined Assurance	March 2016	N/A							Completed
CCTV	February 2016	Substantial	5	0	0	0	3	5	Completed
Revenues and Benefits	December 2015	Substantial	5	4	0	0	4	1	Completed
Financial Systems	December 2015	Substantial	4	3	0	0	2	1	Completed
Cattle Market 2013/14	October 2015	N/A							Completed

Appendix 1

Internal Audit Assurances Given 2015/16

Outstanding									
Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	High	Medium	Low	Not Yet Due	Notes
ICT Audit - Mobile Devices		N/A							Draft Report
ICT Audit - IT Disaster Recovery		Some Improvement Needed*							Draft Report
ICT Audit - Uniform	September 2015	Some Improvement	14	7	0	7	3	0	Completed
Grand Total Outstanding			71	32	1	9	43	29	

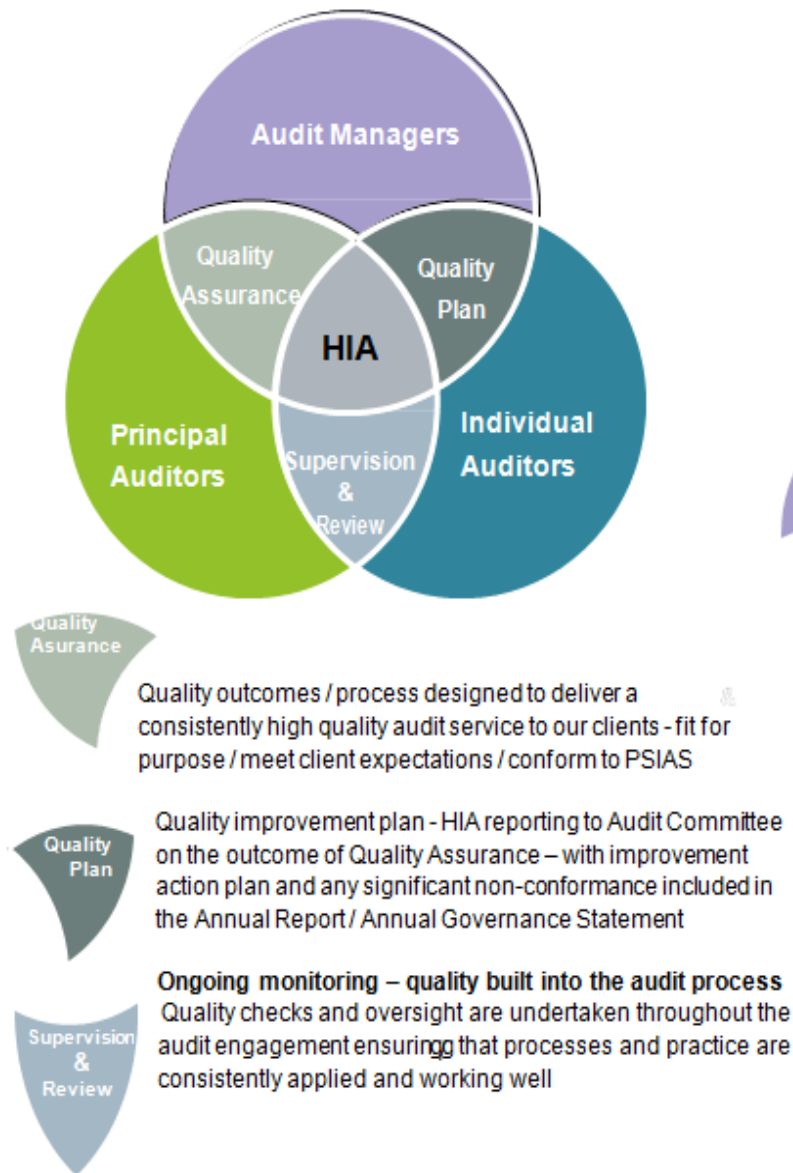
* Indicative Assurance as reports not yet finalised

Appendix 1

Internal Audit Assurances Given 2015/16

Total High / Medium 2015/16 Recs Made	= 95
Total not yet due	= 35
Net	<hr/> = 60
Implemented in full	= 51
% Implemented	<hr/> = 85%

Appendix 2 - Quality Assurance Framework



- Annual self-assessment**
- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
 - Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
 - Arrange an External Assessment – co-ordinated with Audit Committee (planned for 2015)



- Periodic quality assurance assessments**
- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
 - Provide HIA with quarterly highlight reports on outcome of reviews



- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services



- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review. The extent of supervision needed will depend on the proficiency and experience of the internal auditors and the complexity of the engagement.

Key - completed

Appendix 3 – Continuous Improvement Plan

The action plan below is for Assurance Lincolnshire whose primary employer is Lincolnshire County Council, therefore the actions may not apply to all Clients or Audit Committees.

Opportunities for improvement		Actions	Timescale for tasks to be achieved	Person responsible	Status
Governance					
1	Audit Committee Effectiveness	Review Terms of Reference of the Lincolnshire County Council Audit Committee	September 2015	Lucy Pledge & Chairman of the LCC Audit Committee	Complete
		Audit committee effectiveness workshop	May 2016	Lucy Pledge	Complete
2	Gathering of business intelligence – keeping informed	Establish formal client liaison contacts for all areas.	June 2015	Rachel Abbott	Complete
		Create Liaison template to ensure consistency and adequate coverage	June 2015	Rachel Abbott	Complete
		Schedule regular formal liaison	June 2016	Principal Auditors	
3	External Assessment	Paper to Lincolnshire County Council Audit Committee presenting options	September 2015	Lucy Pledge	Complete
		Walk through of assessment	October 2015	John Sketchley	Complete
4	Benchmarking	Analyse and feedback on CIPFA Benchmarking data and report to management team on key messages	September 2015 -	John Sketchley	Not complete
		Feedback to Team meeting	September 2015	Management Team	Not complete
		Review applicability and relevancy of benchmarking data sources – some information received through network and CIPFA	September 2016	John Sketchley	Not due
5	Business Continuity and contingency arrangements	Document, communicate and test Business Continuity arrangements for Team (Refer to Police Tender ITT and feedback)	September 2015	John Sketchley	Complete

Appendix 3 – Continuous Improvement Plan

Opportunities for improvement		Actions	Timescale for tasks to be achieved	Person responsible	Status
6	Risk Register	Develop and maintain a service wide risk register Discuss and evaluate at Team Meetings	June 2015	Management Team	Complete
		Feedback to Head of Audit	June 2015	Management Team	Complete
7	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	Not due
8	Audit Committee Effectiveness	Support publication of Lincolnshire County Council Audit Committee Annual Report: <ul style="list-style-type: none"> Self-assessment of effectiveness Draft annual report 	May 2016 June 2016	Lucy Pledge & Cllr S Rawlins	In progress
Practice					
9	Document Retention	Align Section document retention schedule to LCC	July 2015	Rachel Abbott	Complete
		Basement Clearance to align to document retention.	August 2015	Rachel Abbott	Complete
		Clear desk policy – remind ALL staff and confirm	May 2015	Rachel Abbott	Complete
10	Quality Assurance and performance - Practice Manual	Full Manual review – conducted with the team	October 2015 May 2016	Steph O'Donnell	Draft Complete
11	Quality Assurance - External Assessment	Co-ordinate external assessment and implement any suggested improvements: <ul style="list-style-type: none"> Develop project plan Conduct self-assessment and pull together evidence pack for external assessor Engagement planning Assessment Outcome report 	June 2016 June - July 2016 August 2016 September 2016 November 2016	Lucy Pledge & John Sketchley	Not due

Appendix 3 – Continuous Improvement Plan

Opportunities for improvement		Actions	Timescale for tasks to be achieved	Person responsible	Status
12	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	-	-
13	Quality Assurance – post audit feedback	Improve post audit questionnaire return rate for Newark and Sherwood Homes	September 2016	Amanda Hunt	Not due
14	Implementation of recommendations	Working with management within Lincolnshire County Council to ensure that agreed actions are implemented – setting realistic timescales and taking ownership for implementation	September 2016	Al Simson	Not due
15	Performance – External Audit Protocol	Update External Audit protocols to ensure best use of combined audit resources for client	July 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	In progress
17	Performance – ICT Strategy	Update ICT strategy and approach following developments within the collaboration partnership and LCC delivery through SERCO	June 2016	John Sketchley	In progress
Communication					
18	Performance reporting	Communicate to Principals need to set up staff performance meetings (1:1) and to follow framework Utilise framework	May 2016 May 2016	Rachel Abbott Principals	Complete
19	Report writing	Work to ensure significance and impact is conveyed in reports: <ul style="list-style-type: none"> Evaluating what it means in terms of the assurance What outcomes are they not achieving, always linking back to the outcome. 	October 2015	Steph O'Donnell Rachel Abbott	Complete
20	Quality Assurance outcomes	Improve outcome reporting - Key theme report Developing training and support to improve as required	July 2016	Rachel Abbott and Team Leaders Management Team	Not due
21	Contemporary reporting	Improve timescales for delivery of audit and investigations from time fieldwork commences to issue of draft and final reports	September 2016	Dianne Downs Audit and Counter Fraud Teams	

Appendix 3 – Continuous Improvement Plan

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
I.	IT Audit Awareness / Training General	<p>Provide general awareness training for the team of key IT risks that they should be aware of in performing audits</p> <p>Provide information on Audit Lincolnshire approach to IT Audits</p>	<p>IT Audit provider to pull together a ½ day session.</p> <p>JSk to co-ordinate with help of Leicester – Nov 2015</p> <p>Attended training session – to pull together a session for the team July 2016</p>	Done through Midlands Group 20/5/16 – feedback July 2016
II.	Update on UK Public Sector Internal Audit Standards <ul style="list-style-type: none"> • April 2016 additions • Key areas 	Provide a refresher on the PSIAS and make clear links between these and our procedures and practice	July 2016	Not Due
III.	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	Not Due
IV.	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	Not due

Appendix 3 – Continuous Improvement Plan

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
V	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	Still waiting on Serco
VI	Risk Appetite	Understanding of risk appetite of organisation	To incorporate into RBIA training – March 2016	Complete
VII	RBIA refresher session	Refresher for staff on AL approach to RBIA and reflecting this in reports.	Initial planning meeting 3 rd August. 7 th September Further session March 2016	Complete
VIII	Principals Day	Introduce Principals to their role and provide support, guidance and signposting so that they can complete this more effectively	May 2016	Complete
IX	Appraisal training	Attend corporate training for the new Principals and new team leader so that they are better equipped to complete appraisals	Working with Dave Simpson to get a face to face event scheduled as there are not currently any planned June or July 2016	Not Due

Appendix 3 – Continuous Improvement Plan

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
X	Introduction to Audit (CIPFA)	Give the new Senior Auditor and Audit Officer an introduction to auditing	17 th May 2016	Complete
XI	LCC Managers Essentials	Enrol new Principals on this training course to support skills development for new role	Enrol by June 2016 Completion date tbc	Not Due
XII	Fraud Awareness Session	Refresher information on Fraud Risks and Indicators including Fighting Fraud Locally	June / July 2016 – CoL leading	Not Due
XIII	CIPFA / SOLACE Good Governance Session	Refresher information on Good Governance and key changes / messages in the new guidance	September 2016	Not due

Appendix 4 - Glossary of Terms

<p>High</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>Substantial</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>Limited</p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence (assurance) on service delivery arrangements, management of risks, and the 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>Low</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>

Assurance Definitions

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

PROPOSED TRAINING SESSION ON THE 2015/16 STATEMENT OF ACCOUNTS

1.0 Purpose of Report

- 1.1 To advise Members of a training session to cover their role in approving the Statement of Accounts.

2.0 Proposed Training Session

- 2.1 The remit of the Audit & Accounts Committee includes the requirement to approve the Council's annual Statement of Accounts.
- 2.2 It is a statutory requirement that the Statement of Accounts must be approved and published by 30th September each year. The financial statements are detailed and complex, so to give Members confidence in approving the Statement of Accounts, training is provided each year to assist understanding. Members agreed that a training session should be provided prior to the September meeting of the Committee. The suggested alternative dates for this training session which were sent out to members of the Committee were:

Wednesday 27th July 9.30 am
Wednesday 3rd August 9.30am
Wednesday 10th August 9.30am

The training will last from one and a half to two hours.

- 2.3 Responses received to date suggest that 10th August is the preferred date

3.0 Equalities Implications

- 3.1 There are no equalities implications. All Members of the Committee will be invited to attend the training session.

4.0 Impact on Budget/Policy Framework

- 4.1 The proposed training session to cover the Statement of Accounts can be provided within existing budgets.

5.0 RECOMMENDATION(S)

That the Committee:

- a) Agree that the Statement of Accounts training should be provided on 10th August 2016

Reason for Recommendation(s)

To ensure that Members of the Audit & Accounts Committee are equipped with the knowledge and skills necessary to undertake their role.

Background Papers

Remit of the Audit & Accounts Committee

For further information please contact Nicky Lovely – Business Manager and Chief Financial officer
- Financial Services on Ext 5317

Nicky Lovely
Business Manager & 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
27th April 2016	Update to Committee Terms of Reference	Nicky Lovely	To ensure that Committee members are aware of the Committee's remit
	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
	The Strategic Risk Management Process	Ged Greaves/Richard Bates	To gain assurance that the Council's arrangements for risk management are appropriate
	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
	Outstanding Internal Audit Recommendations	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	To allow the Committee to monitor management actions in response to Internal Audit reports
	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 Certification of Grant Claims and Returns	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that claims and returns have been managed appropriately
	External Auditor Appointments beyond 2017	Nicky Lovely	Ensure that arrangements are in place for

			appointment of an External Auditor when the current contract comes to an end
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Audit Committee Work Programme	Nicky Lovely	
13th July 2016	Treasury Management Outturn Report	Tara Beesley	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	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
	Annual Internal Audit Report	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Gain assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified and that governance arrangements support the achievement of the Council's objectives
	Setting date for Statement of Accounts training session	Nicola Pickavance	
	Audit Committee Work Programme	Nicola Pickavance	
TBA	Training session on Statement of Accounts	Nicola Pickavance	Ensure that the Committee has the appropriate skills to be able to review the Council's Statement of Accounts and consider the integrity of financial reporting
14th 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

	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
	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
	Fraud Risk Assessment	Nicky Lovely	Gain assurance that the Council understands its fraud risks and that actions are in place to address them.
	Proposals for Future Training for the Committee	Nicky Lovely	
	Responses to questions raised at previous meeting:	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
30th November 2016	Treasury Performance half-yearly report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	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
	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	
TBA	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
8th February 2017	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
	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
	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	
26th April 2017	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
	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 Certification of Grant Claims and Returns	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that claims and returns have 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	
TBA May/June 2017	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
Report to July meeting	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