

AUDIT & ACCOUNTS COMMITTEE

Date of Meeting: Wednesday, 29 November 2017
Time: 10:00 am
Venue: Civic Suite, Castle House

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

Tuesday 21 November 2017

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.

Please note that there will be a **Training Session for Members prior to the meeting, at 9am**, on Treasury Management by the Councils Treasury Management Advisers, Arlingclose.



A W Muter
Chief Executive

AGENDA
WEDNESDAY 29 NOVEMBER, 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 26 July 2017.	3-10
5.	Treasury Management Half Yearly Report	11-25
6.	Internal Audit Progress Report 2017/18	26-67
7.	External Auditors Annual Audit Letter 2016/17	68-69
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9.	Audit Committee Work Programme	73-77
10.	Date of Next Meeting- Wednesday, 7 February 2018.	

Any questions relating to the agenda items should be submitted to Nick Wilson- 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. Payne
B. Wells

Officers:

N. Wilson
A. Snape
A. Hunt (Audit Lincs)
Lucy Pledge (Audit Lincs)
John Sketchley (Audit Lincs)
Jon Gorrie (KPMG)
Helen Brookes (KPMG)

NEWARK & SHERWOOD DISTRICT COUNCIL

Minutes of the meeting of the **AUDIT & ACCOUNTS COMMITTEE** held in Room G21, Kelham Hall on Wednesday, 26 July 2017 at 10:00am.

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

Councillors: Councillor R.A. Crowe, G.P. Handley, D.R Payne and B. Wells.

ALSO IN

ATTENDANCE: Nicky Lovely - Business Manager - Financial Services (NSDC)
John Sketchley - Audit Manager (Assurance Lincolnshire)
Lucy Pledge (Audit and Risk Manager (Head of Internal Audit) Assurance Lincolnshire)
Jonathan Gorrie - Director (KPMG)
Helen Brookes - Manager (KPMG)
Nicola Pickavance - Assistant Business Manager - Financial Services (NSDC)

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. 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.

3. DECLARATION OF ANY INTENTION TO RECORD THE MEETING

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

4. MINUTES OF MEETING HELD ON 8 FEBRUARY 2017

AGREED that the Minutes of the meeting held on 27 April 2017 be approved as a correct record and signed by the Chairman.

5. TREASURY OUTTURN REPORT 2016/17

The Business Manager- Financial Services presented the Treasury Outturn report for 2016/17, prior to reporting it to Council on 10 October. The Treasury Strategy and Prudential Indicators for 2016/17 were approved by Council on 10th March 2016 and the Outturn report was the last report for the financial year, required by the CIPFA Code. It was prepared on the basis of the draft final accounts.

The report set out the economic background and the Councils levels of borrowing, investment activity, financial requirements, and usable reserves. The Business Manager explained that approved borrowing rates were above the actual amount borrowed to ensure that the Council had some headroom to enable it to borrow in the event of an emergency or urgent need. The headroom was considered each year and was based on

the capital programme. The report confirmed that the Council had operated with the Treasury Management Strategy and complied with all its prudential indicators during the year.

AGREED (unanimously) that

(a) the Treasury outturn position for 2016/17 be noted; and

(b) the report be referred to Council for consideration and approval.

6. EXTERNAL AUDITORS ANNUAL GOVERNANCE REPORT

Jonathan Gorrie and Helen Brookes (KPMG) presented the External Auditors Annual Governance report, and explained that they expected to issue an unqualified opinion on the Authority's financial statement. A number of audit adjustments and presentational adjustments had been identified, but they had no overall effect on the bottom line. Nine recommendations had been made, which were included in the report.

The report outlined the significant audit risks, including significant changes in the pension liability due to LGPS Triennial Valuation and the provision for Business rate appeals. The pensions liability was highlighted as a significant audit risk, though it was noted that this was common across most authorities, as it was based on estimates, and therefore accuracy was a challenge. However, there were no discrepancies found. The external auditors also confirmed that they would seek details about the comparative pension provision cost across council pension providers.

With regard to the Business rates appeals, in the previous financial year, the external auditors had recommended that the Council assess the liability of outstanding claims. The Council had subsequently engaged a specialist to assess these, and as a result, increased the provision to £7.5 million.

Two other areas of audit focus had been identified, though not significant risks, which were Disclosures associated with retrospective restatement of CIES, EFA and MiRS and Major capital transactions. Levels of prudence within the key judgements in the financial statement and accounting estimates were all found to be balanced, within the acceptable range.

The Committee then considered the nine key recommendations, two of which were high priority. These related to Active4Today and Related Parties. With regard to Active4Today, the external auditors felt that their accounts should be subject to audit. Active4Today had argued that their accounts were not be subject to audit on the grounds that it claimed small company exemption under Section 477 of the Companies Act 2006 ('the Act'). However, Section 479 of the Act stated that a company was not entitled to the exemption conferred by section 477 in respect of a financial year during any part of which it was group company. A local authority owned company was not entitled to take advantage of the small company exemption granted by Section 477 of the Act unless it was dormant or the group qualified as a small group. The Business Manager- Financial Services informed the Committee that she had sought legal advice on this matter, and was awaiting a response. This would be reported to the Committee, along with comments of the S151 Officer. The Committee felt strongly that the

accounts of Active4Today should be audited. It was noted that should it be determined that it was a legal requirement for the accounts to be audited the deadline for audit would be 21 months from the date of incorporation.

With regard to Related parties, the External Auditors recommended that these should be updated annually, and a response sought from each Member. The Committee agreed that this was important, and it may assist Members if the form used could be simplified to aid Members completion and return.

The External Auditors explained that they had also undertaken risk-based work to consider whether in all significant respects the Authority had proper arrangements to ensure that it had taken properly informed decisions, and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

They had concluded that the Council had adequate arrangements in place to demonstrate it was providing value for money. Whilst considering the significant value for money risks, the Committee considered the medium term financial plan, noting the difference in net budget requirement and amount of settlement funding and Council Tax. It was noted that the Council were creating an investment plan and commercialisation plan, however, the Committee considered reduction of costs was also important.

AGREED (unanimously) that

- (a) the Committee receives the External Auditors Annual Governance Report for 2016/17;
- (b) the Committee notes the adjustments to the financial statements set out on page 32 of the report;
- (c) the letter of representation signed by the Assistant Business Manager - Financial Services, be approved; and
- (d) that the Committee receives a report at their next meeting regarding the auditing of the accounts of Active4Today.

7. APPROVAL OF THE STATEMENT OF ACCOUNTS

The Assistant Business Manager- Financial Services presented the final Statement of Accounts. In accordance with the Accounts and Audit Regulations 2015 there was a legal requirement that the Statement of Accounts for the Council receive approval by an appropriate Committee by the 31st July following the end of the financial year to which the Accounts relate.

There was a statutory requirement for the accounts of Newark and Sherwood Homes Ltd and Active4Today Ltd, the Council's two subsidiary companies, to be combined with the District Council's accounts to produce Group accounts which also have to be approved by the same date. A deadline of 19th May was agreed with Newark and Sherwood Homes Ltd and Active4Today Ltd for submission of completed accounts, and their accounts were received by this date.

Some changes had been made to the core statements of the Statement of Accounts following the external audit. There was one material error on the balance sheet and three non-material errors which impacted a number of core statements. None of them impacted on the Council's surplus for the year. There was, in addition, one error in the Collection Fund which had impacted on the Council's surplus for the year. The surplus had been reduced by £37k.

In considering the Statement of Accounts, Members requested that further detail be included in relation to the HRA operating surplus and transfer to the Major Repairs Reserve.

Before concluding, the Chairman agreed a vote of thanks to the Finance Team and Internal and External auditors for a good set of accounts and successful audit. She also passed on special thanks on behalf of the Committee to Mrs N. Pickavance, as it was her final Audit and Accounts meeting with the Council.

AGREED (unanimously) that

- (a) Members approve the Annual Governance Statement for the financial year ended 31st March 2017
- (b) Members approve the Statement of Accounts for the financial year ended 31st March 2017
- (c) Members note the intention of the s151 Officer and the Chairman to sign the Letter of Representation

8. INTERNAL AUDIT PROGRESS REPORT 2017/18

The Director- Safety was in attendance to address concerns raised by the Committee at their previous meeting in relation to the Audits of CCTV and ASB, outstanding Business Continuity Work, and the postponed audits of Emergency Planning Audit and Risk Management.

There were a number of actions reported as overdue for implementation within CCTV and ASB. The Director Safety clarified that the actions within the ASB report were now actually completed, although they were yet to inform Internal Audit. The actions undertaken were training on idox uniform system which had been undertaken by 31 March 2017, and a move to wholly electronic caseload documents. The backlog of hard copy documents had been scanned, and staff were now working with electronic documents.

Within CCTV, the actions resulting from the audit was still outstanding. The action related to the production of an annual report, as it was noted that there was no annual report to the Council. The Committee heard that there was a draft report ready for submission to the Homes and Communities Committee. The Director Safety explained that the delay was due to the staff focus on relocation of the CCTV room, which had taken priority.

In relation to the Business Continuity Plan, the Director Safety acknowledged that there was delay in this area. An action list had been developed by the Emergency Planning Officer, as a result of the Audit. However the officer in post had recently left, and the newly appointed Emergency Planning Officer was currently undergoing training. There had been other staffing issues which had a significant impact on the small business unit. It was however noted, that the work to move to the new office had been positive in relation to Business Continuity, particularly in enabling staff to work in an agile manner.

The Committee heard that the Emergency Planning audit had been postponed to be undertaken in November in the 2018/19 audit plan. The Director- Safety explained that the team already had three scheduled audits for 2017/18 - those being Risk Management, Health and Safety and CCTV. The Emergency Planning Audit had been postponed as it was felt that it would have created too significant a demand on the workload of the Business Unit. In the meantime, Emergency Planning exercises would be undertaken prior to the audit to test the new control room in Castle house and test out the new systems in place as a result of the move to Castle House.

The Committee sought assurance that the Council would be able to act in the event of an emergency. The Director-Safety felt that the Council was well placed to address an emergency. The Council had successfully dealt with previous incidents, including flooding, held exercises to test systems, and the Director was part of the local County-wide resilience forum which was a network to promote co-operation and co-ordination in dealing with emergencies in the County.

Finally, the Director- Safety acknowledged that the management response to the Procurement Audit had been delayed, but the recommendations from this had been put in place.

The Audit Manager (Assurance Lincolnshire) then presented the Internal Audit Progress report outlining the audits completed and progress against the audit plan. Six reports had been issued during the period, one with high assurance which was Human Resources, and four with substantial assurance:- Civica ICT Application; Counter Fraud; NNDR; and Affordable Housing Growth. One report, Security, had been issued with limited assurance. Details of all the audits were included in the report to Members.

The Audit Committee considered the report, and whilst it was acknowledged that the move to Castle House may impact of the delivery of the plan, as it would be the main focus for Business Managers for a period, the Committee agreed that it would, wherever possible, assist in minimising any delays. The Committee also considered it was appropriate to make use of the contingency budget to enable an assurance review to be undertaken of Business Continuity within 2017/18, as it was identified as a strategic risk for the Council.

AGREED (unanimously) that

(a) the Audit & Accounts Committee consider and comment upon the latest internal audit progress report.

(b) that the Committee write to CMT to help assist Internal Audit

minimising any delays in the audit plan; and

- (c) that the use of contingency budget be approved to enable Internal Audit to undertake a full assurance review of Business Continuity.

9. ANNUAL INTERNAL AUDIT REPORT 2016/17

The Audit Manager (Assurance Lincolnshire) presented the Annual Internal Audit report for 2016/17. She explained that the report commented on the adequacy and effectiveness of the Council's arrangements for Governance, Risk, Internal Control and Financial Control. All these areas were rated as performing well, with only Governance and Internal Control requiring some improvement. Details of these were included in the report to Members.

Details of other significant work undertaken were included for Members, including on ethics, which was currently on-going. 96% of the plan had been completed.

AGREED (unanimously) that the Audit & Accounts Committee consider and comment upon the annual internal audit report.

10. RESULTS OF THE REVIEW OF THE ASSESSMENT OF EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION AND THE AUDIT AND ACCOUNTS COMMITTEE

The Business Manager- Financial Services, presented the results of the review of the assessment of the effectiveness of the Internal Audit function. The Chairman, Councillor Handley and the Business Manager- Financial Services, had met on the 19 June to undertake the assessment.

The review considered the results of the independent external assessment of the Internal Audit function against the Public Sector Internal Audit Standards and the Local Government Advisory Note, which had been carried out by CIPFA during the latter half of 2016. The group considered the report and agreed that its conclusions corresponded with the Committee's experience of the Internal Audit service. The group also agreed that the Quality Assurance Improvement Programme provided by the Head of Internal Audit met the requirements of the Council, and that the aims and objectives of the Internal Audit Strategy had been achieved. Some further queries had been raised with the Head of Internal Audit, relating to delivery of the annual audit plan, the responses to which were included in the report to Members.

With regard to the effectiveness of the Audit and Accounts Committee, the self-assessment was undertaken using a questionnaire provided within CIPFA's Practical Guidance for Audit Committees. For 28 out of the 30 questions, the group agreed that the Audit & Accounts Committee demonstrated best practice against the guidance (27 in 2015/16); there was one question where the group considered that the Committee did not meet best practice (0 in 2015/16), and one question was not applicable to the arrangements at Newark & Sherwood District Council. An action plan had been developed to address areas where it was felt improvements could be made.

The Chairman also invited feedback from both the Internal and External Auditors with regard to the effectiveness of the Audit and Accounts Committee. In response, it was

suggested that the Committee could consider inviting an independent lay member to be appointed to the Committee, inviting Business Managers and CMT to the meetings as a matter of course to attend when their audit reports were presented, and also placing more focus on the Committee's work programme and linking this to the assurance map.

AGREED (unanimously) that the Committee

- (a) notes the results of the review of the effectiveness of the Internal Audit Function;
- (b) notes the results of the Self-Assessment of the Effectiveness of the Audit & Accounts Committee;
- (c) adopts the action plan; and
- (d) agrees that the next assessment should be undertaken in June/July 2019.

11. REPORT ON THE INTERIM ARRANGEMENTS FOR THE S151 OFFICER

The Business Manager & Chief Financial Officer - Financial Services presented a report outlining the interim arrangements for the role of the Section 151 Officer, due to the resignation of the Business Manager - Financial Services and recently appointed Director of Resources, Sanjiv Kohli, who would commence in the role on 31 July 2017. The recruitment process for the Business Manager was underway.

The Committee had raised concern in the event that these posts, and the Assistant Business Manager were all vacant simultaneously. This would not be the case due to the recruitment, however, it was clarified that the duty of the Section 151 Officer could be undertaken by somebody who was not an employee of the Council, and therefore the Council had the contingency of appointing a consultant if required.

AGREED (unanimously) that the Committee welcomes the appointment of the Director of Resources and that report be noted.

12. AUDIT COMMITTEE WORK PROGRAMME

The Committee considered the work programme detailing items to be considered during their meetings throughout the municipal year.

AGREED that the Work Plan be noted.

13. DATE OF NEXT MEETING

NOTED that the date of the next meeting was Wednesday, 29 November 2017, at 10am in G21.

Prior to the close of the meeting, the Chairman, of behalf of the Committee, expressed her thanks to the Business Manager - Financial Services for her dedication and hard work, as she would be leaving the authority and this was to be her last Audit and Accounts Committee.

The meeting closed at 12.06pm.

Chairman

29TH NOVEMBER 2017

TREASURY MANAGEMENT 2017-18 MID YEAR REPORT

1. Purpose of Report

- 1.1. This report provides an update on the Council's treasury activity and prudential indicators for the first half of 2017/18. As indicated in the report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to the investment activity, with priority being given to security and liquidity over yield.

2. Background Information

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

3. Economic Background

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

4. Regulatory Updates

- 4.1. **MiFID II:** Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.
- 4.2. The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial

Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

- 4.3. The Authority meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.

5. Treasury Management Strategy Statement and Annual Investment Strategy update

- 5.1. The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Full Council on 9th March 2017. Officers felt the MRP policy within that report did not specifically identify the way that MRP should be charged. Below is a proposed change to the approved MRP Policy which is contained within the TMSS 2017/18.

Current MRP statement that was approved by Full Council on 9th March 2017:

MRP Statement: The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. Local Authorities are required to 'have regard' to guidance on Minimum Revenue Provision (MRP) issued by the Secretary of State. This guidance suggests a number of options for calculating MRP but does not preclude other prudent methods that the Council may wish to adopt. This Council will continue to use the Asset Life Method, whereby MRP will be based on the estimated life of the asset for all capital expenditure funded from borrowing, subject to a maximum life of 50 years.

To be replaced with:

Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

For capital expenditure incurred before 1 April 2016 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

Regulatory Method (Option 1)

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year. However as the Council deems it more prudent MRP will be charged on a 2% straight line basis. This ensures that the debt will be repaid within 50 years.

From 1 April 2016 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provide for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

6. **CIPFA Consultation on Prudential and Treasury Management Codes**: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

6.1. The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to Full Council which will cover the basics of the Capital Programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

6.2. Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of "investments" as well as loans made or shares bought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

6.3. CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

7. **Local Context**

7.1. At 31/3/2017 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £125m, while usable reserves and working capital which are the underlying resources available for investment were £43.3m.

The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2017/18 Original Estimate £m	Current Position £m	2017/18 Revised Estimate £m
General Fund Expenditure	12.39	4.39	14.24
HRA Expenditure	18.73	5.68	20.01
Total Capital Expenditure	31.12	10.07	34.25

The financing of the Capital Programme will be determined by the S151 Officer at the year end based on best use of resources.

- 7.2. At 31/3/2017, the Council had £91m of borrowing and £27m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- 7.3. 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 £7.7m over the forecast period. However, if reserve levels permit, internal borrowing will be considered.

8. Borrowing Strategy

8.1. At 30/9/2017 the Council held £90m of loans, as part of its strategy for funding previous years' capital programmes.

8.2. The Council does not expect to borrow in 2017/18.

8.3. Borrowing Activity in 2017/18

	Balance on 01/04/2017 £m	Balance on 30/09/2017 £m
Short Term Borrowing	3.92	3.34
Long Term Borrowing	87.12	87.12
TOTAL BORROWING	91.04	90.46
Other Long Term Liabilities	0.22	0.22
TOTAL EXTERNAL DEBT	91.26	90.68
CFR	125.0	125.00
Under / (over) borrowing	33.74	34.32

8.4. **PWLB Certainty Rate and Project Rate Update:** The PWLB introduced a 'Certainty Rate' for borrowing in 2013 which is 0.20% below the PWLB standard rate. The rate is made available for a 12 month period, in return for the Council providing advance information about its capital investment plans. In April 2017 the Council submitted its application to CLG along

with the 2017/18 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2017.

- 8.5. **LOBOs:** The Council holds £3.5m of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of the £3.5m of LOBOS had options during the last 6 months, none of which were exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.
- 8.6. **Internal borrowing:** For the Council, the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding of capital expenditure that has not been funded from grants and other resources. This has lowered overall treasury risk by reducing both external debt and temporary investments. However this position will not be sustainable over the medium term as the Council needs to use reserves for the purpose they were set aside for, and external borrowing may need to be undertaken.
- 8.7. **Debt rescheduling:** The premium charge for early repayment of PWLB debt remains relatively expensive for the loans in the Council’s portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

9. Investment Activity

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

9.2. Investment Activity in 2017/18

Type of Investment	Balance on 01/04/2017 £m	Balance on 30/09/2017 £m	Average Interest Rate
Short term Investments:			
Fixed Term Deposits	10.00	9.90	0.52%
Money Market Funds	17.81	13.84	0.30%
Bank Call Account	0.05	5.00	
Total Short term Investments	27.86	28.74	
Long term Investments	0	0	
TOTAL INVESTMENTS	27.86	28.74	
Increase/ (Decrease) in Investments		0.88	

9.3. Security of capital has remained the Council’s main investment objective. This has been maintained by following the Council’s counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18.

- 9.4. New investments on an unsecured basis with banks and building societies over the 6-month period were made at an average rate of 0.52%. Investments in Money Market Funds generated an average rate of 0.3%.
- 9.5. The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates short-dated money market investments with banks and building societies. As all of the Authority's surplus cash continues to be invested in short-dated money market instruments, it will most likely result in a fall in investment income over the year.
- 9.6. Appendix B gives a report on the Counterparties from our Treasury Consultants, Arlingclose.

10. Prudential Indicators

- 10.1. The Council can confirm that it has complied with its Prudential Indicators for 2017/18, which was set on 9th March 2017 as part of the Council's Treasury Management Strategy Statement.
- 10.2. **Upper Limits for Fixed and Variable Interest Rate Exposure.** These indicators allow the Council to manage the extent to which it is exposed to changes in external interest rates.

£m	Approved 2017/18 £m	Actual to 30/09/2017 £m
<u>Fixed</u>		
Upper Limit for Exposure on Debt	124.2	87.1
Upper Limit for Exposure on Investments	-5	0
Net Fixed Exposure	119.2	87.1
<u>Variable</u>		
Upper Limit for Exposure on Debt	31	3.3
Upper Limit for Exposure on Investments	-37.3	-28.7
Net Variable Rate Exposure	-6.3	-25.4

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

	Upper Limit %	Actual at 30/09/17 £	Actual at 30/09/17 %	Compliance
Under 12 months	15%	£4.5m	5.2%	Yes
12-24 months	15%	£1.0m	1.1%	Yes
2-5 years	30%	£17.0m	19.5%	Yes
5-10 years	100%	£15.0m	17.2%	Yes
Over 10 years	100%	£49.6m	57.0%	Yes

- 10.4. **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.

10.5. **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 2017/18.

	Approved Operational Boundary 2017/18 £m	Authorised Limit 2017/18 £m	Actual External Debt 30/09/17 £m
Borrowing	141.8	155.2	90.4
Other Long Term Liabilities	0.4	0.6	0.2
Total	142.2	155.8	90.6

11. Outlook for the remainder of 2017/18

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

12. RECOMMENDATIONS that:-

- (a) that members approve the new MRP policy statement contained within the Treasury Management Strategy as per section 5 and recommend to full Council on 12 December;
- (b) the treasury activity be noted; and
- (c) the Prudential Indicators detailed in Section 10 of the report be noted.

Background Papers

Nil.

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

N Wilson

Business Manager Financial Services

Economic backdrop: Commodity prices fluctuated over the period with oil falling below \$45 a barrel before inching back up to \$58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, it's lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the \$4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by \$10bn a month.

Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly \$1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political

uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Financial markets: Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3.

S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

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

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

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

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

The European Banking Authority released the results of its 2017 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

Moody's downgraded Deutsche Bank's long-term rating from Baa1 to Baa2 reflecting the agency's view of increased execution risks for the implementation of Deutsche Bank's strategic plan. Deutsche Bank has not been able to shake off the legacy of the global financial crisis. In September the US Department of Justice announced a \$14bn penalty claim against the bank whose share

price has more than halved over the 12 months to September 2017. In March, on Arlingclose's advice, the Authority had suspended Deutsche Bank for new unsecured investments.

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

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

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

Outlook for Q3 and Q4 2015/17

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

The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2017, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

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

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

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

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in in December 2017 but only if economic conditions warrant.

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

Money Market Data and PWLB Rates

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

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

Table 1: Bank Rate, Money Market Rates

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

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

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

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

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

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

Table 4: PWLB Variable Rates (standard rate)

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

INTERNAL AUDIT PROGRESS REPORT

1.0 Purpose of Report

To receive and comment upon the latest Internal Audit Progress Report which covers the period up to 31 October 2017.

2.0 Introduction

The purpose of the internal audit progress report (Annex A) is to provide a summary of Internal Audit work undertaken during 2017/18 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.

Nick Wilson
Business Manager Financial Services



Internal Audit Progress Report November 2017



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Introduction

1. The purpose of this report is to:
 - Advise of progress made with the 2017/18 Audit Plan as at 31 October 2017
 - Provide details of the audit work undertaken since the last progress report.
 - Provide details of the current position with agreed management actions in respect of previously issued reports
 - Raise any other matters that may be relevant to the Audit and Accounts Committee role

Key Messages

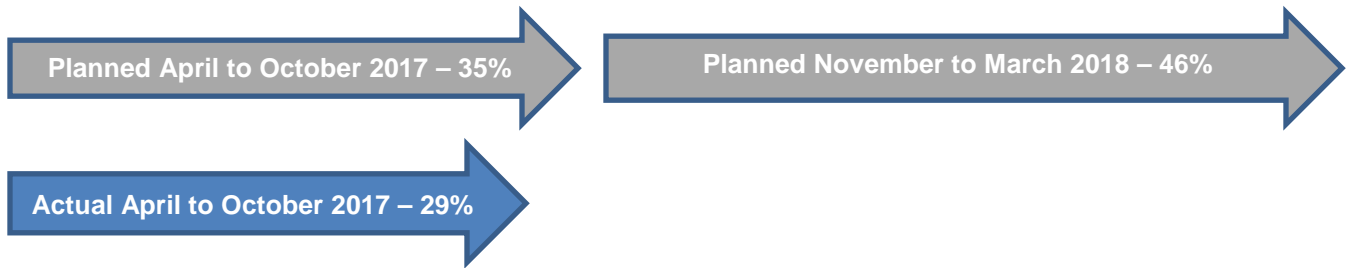
2. We have completed five audits since the last progress report – with the following assurance ratings:

High Assurance	Substantial	Limited	Low
<ul style="list-style-type: none">■ Housing Benefits/ Council Tax Support	<ul style="list-style-type: none">■ ICT Database Management■ Partnership – Active4Today■ Key Control Testing	<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 3.

3. There are five audits currently at draft report stage – these are:
 - The Visitor Centre (National Civil War Centre and Palace Theatre) is still with the auditees awaiting a response and has been since May.
 - Moving ahead second review is with the auditee – a closure meeting is planned for scheduled in November.
 - Estates – Draft report is with auditee awaiting responses
 - Corporate Governance is currently being drafted
 - Insurance is with CMT awaiting final sign-off
4. The move to Castle House has (as expected) had an impact on our ability to progress some of our audits due to the availability of staff but we do not anticipate this will affect overall delivery – we took this into account in our planning process.

5. Four audits have been postponed due to staff changes in the Business Unit or at the request of the auditee (12%). We will attempt to reschedule these in the plan.
6. We have delivered 29% of the 2017/18 plan against a planned schedule of 35%.



Appendix 1 provides more details on the Audit Work Plan and schedule..

7. Progress has been made in implementing audit recommendations - there are currently 2 medium priority overdue actions for the Active4Today partnership review. This audit received a Substantial Assurance rating - full details are attached in **Appendix 2**.

Internal Audit work completed at 31 October 2017

8. Below are summaries of the audit reports issued:

ICT Database Management – Substantial Assurance

Overall we found that there were good processes in place for maintaining database systems with responsibilities allocated and policies and procedures which provide direction for staff. These processes could be further strengthened to increase systems auditing and security.

The Council utilises the technical knowledge of suppliers to assist in maintaining databases from which applications then access the data held. The Council has a remote access policy to help regulate connection arrangements with suppliers, but a current signed policy wasn't in place for a key supplier that assists with database management. Having oversight of the actions performed on the Council's behalf would also provide assurance that the database is being effectively maintained so we have suggested that the auditing options available at the database layer are periodically reviewed. A procedure document providing direction for staff to follow should be developed.

There are some default accounts in place with some of these having default passwords. We have recommended that the default accounts are reviewed to see if they are required and if so, to then ensure any default passwords are changed. We have also suggested that certain privileges associated with user accounts/roles are reviewed.

We confirmed that actions arising from a review of the database supporting the Uniform application have now been implemented. The database is up to date with

recent patch releases and a key database account has had the default password changed.

Partnership – Active4Today – Substantial Assurance

Overall we found that the Partnership was working well with good communication and processes in place. There is a contract in place, some Service Level agreements and a good governance framework. There are some areas around management and governance which could be improved to maintain the good working relationship between the Council and the Company.

There are some services provided to the Company for which there are no Service Level Agreements or similar in place or they are out of date. As the Company is now established these need to be revisited to ensure that they are in place, continue to reflect the level of service required and maintain the strong relationship going forward.

At the time of the review the Directors registered with Companies House did not include a Director of Finance or any Independent Directors. We understand that a Director of Finance has now been appointed but this is not yet reflected in the registration. It is good practice to appoint an experienced and appropriately qualified Director of Finance and also an Independent Director to the Board to provide a different, independent view.

Whilst there are good monitoring arrangements in place for performance and financial aspects the other monitoring requires improvement and formalising.

Key Control Testing – Substantial Assurance

The Council has good processes and key controls in place which ensure that the systems reviewed operate effectively and protect the business from fraud and error. We have identified some areas where improvements are required to further strengthen these arrangements preventing fraud and error.

The following are the key areas which require strengthening:-

Bank

Annotating and maintaining reports will evidence that reconciliations are carried out promptly and accurately.

Ledger

Reviewing the process in place for checking the system users permissions and removing leavers promptly would reduce the potential for fraud and theft.

Payroll

Ensuring that all payroll documentation is appropriately signed and authorised prior to being processed will protect the Council from fraud and error.

Council Tax

Reconciling the bills printed and dispatched to the extract file will ensure that all bills are printed and dispatched.

Housing Benefits/Council Tax Support – High Assurance

The Housing Benefits, Discretionary Housing Payments and Council Tax Support are effectively managed and the current operational processes ensure that only eligible claimants are identified, their claims correctly assessed and paid in accordance with entitlement.

One area of improvement was identified concerning the need to ensure reconciliation of the Local Housing Allowance payments between the Civica system and E-Financials is completed each month and any unreconciled balances are investigated and corrected. Another concerned the necessity to ensure all evidence is received prior to payment of benefit.

Other significant work

9. We have completed two other pieces of work this quarter, review of the proposed revised trade debtors system within Trade Waste and calculation of the Cattle Market rent figure for 2016/17.

Overdue Audit Recommendations

10. There are currently two overdue management actions that were due for completion by the 31 October 2017. These relate to the Partnership audit of Active4Today and are the responsibility of the Director Safety. They relate to the Company providing information to the Council when there are any changes to their Governance arrangements and reviewing Board membership. It was agreed that the external review being commissioned would cover these areas but we have not been informed of the progress made so far.

Performance Information

11. Our performance is measured against a range of indicators. The table below shows our performance on key indicators as at 31 October 2017, as we are only in the second quarter some of the indicators cannot be reported on.

Performance Details 2017/18 Planned Work

Performance Indicator	Target	2017/18 Actual @ 31/10/17
Percentage of NSDC plan completed.	100% (Annual year end)	29%*
Percentage of key financial systems completed.	100% (Annual year end)	N/A
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented (2017/18 plan).	100%	N/A
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%	■ 60%
Client Feedback on Audit (average)	Good to excellent	N/A

*Indicator based on the number of days spent against the total number of days within the revised annual plan

12. Our work is planned around completing both the Council's and Newark and Sherwood Homes plans within the financial year. The NSH plan is front loaded with an aim to complete all of their audits before the end of the calendar year and the Council's plan is not scheduled evenly throughout the year. Delays in progressing the Council's plan due to auditee availability in starting the audits in the first few months of the financial year and the availability of some auditees during the move have been reduced by us completing more of the Newark and Sherwood Homes Plan reducing the overall slippage to 18% based on the original schedule.
13. We have commenced all of the audits which should have been started before the end of this quarter apart from those audits which have been postponed due to auditee request or appointment of new staff within the area to be audited. We are currently reallocating resources to ensure that all audits within the plan can be commenced before the end of March 2018.
14. There are two audits which were not completed within the two month period due to the auditor being on leave during the audit period:-
 - Estates
 - Housing and Council Tax Support

Changes to the 2017/18 Plan

15. There have not been any further changes made to the 2017/18 plan since those made at the previous Committee.

Other Matters of Interest

16. The CIPFA Better Governance Forum September 2017 issued some guidance for Audit Committees for the following areas:-

- 2017 edition of the Public Sector Internal Audit Standards,
- Understanding the risks and opportunities from Brexit and recent developments and resources

The full reports are included in Appendix 4.

We have also included the National Audit Offices guidance to Audit Committees on Cyber security risks.

Appendix 1 – Audit Plan 2017/18 Schedule

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Progress %	Audit State
Corporate Governance	10	Requirements of the revised framework have been identified and implemented/plans put in place to implement.	Aug	Jul		85%	Draft Report
Corporate Policy	5	There are process in place which ensure the Council has relevant policies and these are kept up-to-date and published where necessary.	Nov				
Car Parks	8	Income security and collection processes are adequate. The potential reduction of income due to the loss of some spaces and the effect of the devolution of Markets is managed.	Oct	Oct		30%	Fieldwork
Leisure Centres – Client Monitoring	5	Monitoring arrangements are in place to effectively monitor the performance of Active4Today and ensure compliance with the agreement.	Sept				Auditee postponed
ICT - Operations	5	Network users are managed effectively with appropriate set-up, change and removal processes.	May	Jun		70%	Fieldwork
ICT - Compliance	5	Follow-up of progress on PCIDSS compliance.	Jan	Jun		30%	Fieldwork
ICT - Application	8	Review of one or more key applications	Dec				
Information Governance	10	The arrangements in place for Information Governance ensure that the relevant legislation is complied with and information held by the Council is secure. Arrangements are in place to ensure that General Data Protection Regulations are in place before the deadline.	Dec				
Moving Ahead	10	Final gateway review of the closure process including outcomes and lessons learned.	Dec				
Performance Management and Assurance	8	There are effective processes in place which ensure that the Council is measuring relevant	Nov	Oct		15%	Terms of reference agreed

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Progress %	Audit State
		performance and reporting to stakeholders. Action is taken where assurance of compliance is not being provided.					
Risk Management	8	There are arrangements in place which ensure that the risks are identified, monitored and mitigated.	Nov				
Health and Safety	8	Compliance with policies and legislation.	Sept				Requested to postpone
CCTV	5	Follow-up of the recommendations made in the 2015/16 audit review.	Mar				
Estates Management	10	Income is promptly collected and voids minimised. There is a business plan in place.	May	May		85%	Draft report
Strategic Asset Management	8	There is an up-to-date Strategic Asset Management plan in place and reported. All Council assets are recorded and maintained by the Council or in accordance with any agreement.	Jan				
Key Control Testing	30	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.	Jan				
Income/ Banking arrangements	9	Revised processes in place for the collection, recording and reconciliation of income comply with Financial Regulations and ensure that all income is accounted for. Arrangements with the new bank are embedded.	Sept				Postponed awaiting appointment of new staff
Funding	6	Processes are in place which ensure that changes to funding are identified and fed into relevant financial models and planning decisions.	Jul				Postponed awaiting appointment of new staff
Procurement	5	Recommendations made within the previous report have been implemented and embedded.	Jul	Oct		15%	Delayed by appointment of new Director. Terms of reference agreed
Housing Benefits/ Council Tax Support	15	Benefits are paid in accordance with the legislation and Council Tax Support awarded in accordance with policies.	May	Jun	October 2017	100%	Completed

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Progress %	Audit State
Contract Management	8	There are arrangements in place which ensure that contracts are managed effectively.	Feb				
Insurance	8	Insurance cover is in place, adequate and correctly recharged.	Aug	Sept		90%	Final report
Housing and Planning Act	0	Review of processes in place to ensure that the requirements of the Act are identified, implemented and the affects of the implementation reported (including the affect on the HRA)	Jun	N/A	N/A	N/A	Cancelled
Combined Assurance	15	Updating the assurance map and completing the Combined Assurance report.	Oct	Oct		15%	Meetings underway
Active4Today	2	Assurance on creditors figures feeding into the group accounts.	Jan				
Gilstrap	1	Review of the Gilstrap accounts for the Charities Commission.	Aug	Jun	N/A	100%	Completed
Mansfield Crematorium	5	Completion of the audit of the Mansfield Crematorium Accounts	Apr	May	N/A	100%	Completed
Newark Cattlemarket	5	Completion of the rent calculation for 2016/17	Jun	Jun	Aug	100%	Completed
Emergency Planning	0	c/f from 2016/17 plan	N/A	N/A	N/A	N/A	Postponed by auditee to 2018/19
Debtors - Trade Waste	3	Review of the proposed new system, providing advice.	N/A	Jun	Aug	100%	Report
Business Continuity	5	Follow-up review to ascertain current position	N/A				
Contingency	18	Original budget 18, 3 allocated to Debtors work, 2 additional work on estates, 5 allocated to Business Continuity and 10 added cancelled audit.	N/A	N/A	N/A	N/A	N/A
Grand Total (Revised)	248						

Appendix 2 - Overdue Audit Recommendations

Summary of recommendations outstanding which were due to be implemented by 31 October 2017.

Audit Area	Date	Assurance	No.of Agreed Recs	Implemented /Closed	Outstanding *		Not Due	Recommendations Outstanding
					H	M		
Customers								
Partnerships - Active4Today	Apr-17	Substantial	5	0	0	2	3	<p>1.1 The Company promptly informs the Council of any changes which affect its' governance arrangements. Financial arrangements of the Company are one of these therefore continual liaison takes place to ensure that the revised arrangements meet the required standard.</p> <p>1.2 Consideration is given to reviewing Board membership to consider including Independent Directors, Director with financial management responsibilities and ensuring that conflicts of interest are minimised. Any changes are reported to Companies House to be included within the Company Registration.</p>

Appendix 3 - Assurance Definitions¹

<p>High Assurance</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 Assurance</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 Assurance</p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low Assurance</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>

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.

CIPFA Better Governance Forum**Audit Committee Update**

– helping audit committees to be effective

Issue 23

- **2017 edition of the Public Sector Internal Audit Standards**
- **Understanding the risks and opportunities from Brexit**
- **Recent developments and resources**

September 2017

Introduction

Dear audit committee member,

Welcome to Issue 23 of our briefings for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

This issue's main article focuses on changes to the Public Sector Internal Audit Standards that are likely to come before the audit committee. Having oversight of internal audit and supporting the professional practice of internal auditing is one of the key roles of the audit committee so it is helpful to be aware of new developments.

A second article considers some of the risks that may be featuring in your risk registers around Brexit. This is of course an area where there is a lot of uncertainty, however, it is helpful for a public sector organisation to think through any likely implications for service delivery and resources management.

I hope you will find this issue helpful. We welcome feedback on these briefings and suggestions for future topics. Please let us know if we are getting them right.

Best wishes

Diana Melville
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CIPFA Better Governance Forum
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Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

Principal Content	Link
Issues from 2010 – the content in these issues has been replaced by more recent issues	
Issues from 2011	
Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA’s Survey of Audit Committees in Local Government	Issue 5
Partnerships from the Audit Committee Perspective	Issue 6
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA’s Guidance on Audit Committees	Issue 11
Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA’s Consultation on a new Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, The Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15

Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	Issue 21
Issues from 2017	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	Issue 22

Workshops and Training for Audit Committee Members in 2017

Development day for police audit committees

The Better Governance Forum and Police Network have run workshops for members of police audit committees over the past two years. These workshops provide the opportunity to receive briefings on current issues in policing, audit and governance. The workshops are a practical way to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members.

[20 September 2017, London](#); [21 September 2017, York](#)

In house training

In house audit committee training tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements.

For further details contact chris.o'neill@cipfa.org or email diana.melville@cipfa.org or visit the CIPFA website where we have a [brochure](#) to download outlining our services for audit committees.

Need some help in improving your committee?

As a BGF subscriber you have access to all the previous issues of Audit Committee Update listed on pages two and three. The CIPFA publication *Audit Committees: Practical Guidance for Local Authorities and Police* also contains resources to help you assess and improve your committee. Audit committee training and facilitation is also available.

Changes to the Public Sector Internal Audit Standards

The [Public Sector Internal Audit Standards](#) (PSIAS) were updated in April 2017 following the consultation earlier in the year. The standards are mandatory for internal audit in the public services, including local government, health and central government. The update reflects the changes made to the *International Professional Practices Framework* (IPPF) of the Global Institute of Internal Auditors on which the PSIAS is based. In addition, amendments were made to the public sector requirements and public sector interpretations which form part of the PSIAS.

As the standards are mandatory your internal audit team should now be working to them and making any changes required to their local practices. It would be expected that the Internal Audit Charter would be updated to reflect the new standards and brought to the audit committee for approval.

Roles beyond internal auditing

One area of significant change is the introduction of a new standard: *1112 Chief Audit Executive Roles Beyond Internal Auditing*. If the head of internal audit (referred to as the chief audit executive in the standards) takes on roles or responsibilities that fall outside of internal auditing, then safeguards must be put in place to limit impairments to independence or objectivity. The head of internal audit must highlight any actual or perceived impairment to the board or audit committee and safeguards should be considered to protect internal audit independence.

CIPFA welcomes this addition to the standards as it takes account of a trend for heads of internal audit to have other responsibilities. For example, some heads of internal audit are also responsible for risk management or corporate counter fraud. Audit committees should note that the standards **do not** say that a head of internal audit cannot have responsibility for other functions, but they rightly emphasise the importance of internal audit independence and the need to ensure it is safeguarded. It is vital that this principle is considered locally and the head of internal audit is adequately supported to meet professional requirements. The audit committee should exercise its responsibility for oversight of internal audit and support internal audit's ability to meet professional standards.

Planning for external quality assessments

Local authorities have until 31 March 2018 to complete their external quality assessment (EQA) in compliance with the PSIAS. The standards require an external assessment to test conformance with the standards at least once every five years. Since the PSIAS were introduced on 1 April 2013, the five-year period will end soon. The assessment can be delivered in several ways, including the external validation of a self-assessment, having a peer review or using an external assessor. There are a range of providers of EQAs, including CIPFA and more information is available on the [CIPFA website](#).

Further details of the audit committee role in supporting the assessment can be found in [Issue 21 of Audit Committee Update](#). The 2017 update to PSIAS now requires that the chief audit executive communicate the results to senior management and the board, which in most cases means the audit committee, and include them in the annual report.

Audit committees should also be aware that the EQA should be based on the PSIAS, not the IPPF (which tends to be used in the private sector in the UK) and for local government it should also include requirements set out in the [Local Government Application Note](#) published by CIPFA. If your internal audit service is provided by a contractor or shared www.cipfa.org/services/networks/better-governance-forum

service then you should ensure that their EQA covers the client relationship with you. Further guidance on this is available from the [Internal Audit Standards Advisory Board](#).

The ultimate goal of professional standards is to ensure a consistent high quality internal audit service. By supporting internal audit to comply with the standards means that the audit committee will be able to confidently rely on the work of internal audit and its work will have greater credibility within the organisation.

Key Questions to Ask	
1	Does the head of internal audit undertake any roles beyond internal auditing?
2	If so, what does this mean for the independence or objectivity of internal audit?
3	Are safeguards needed and what would be appropriate?
4	What is the current position of our EQA? Did it/will it include both the PSIAS and the Local Government Application Note (applicable for local government bodies only) and cover the client relationship?
5	Is the audit committee doing enough to support internal audit in meeting professional standards?

Diana Melville

Governance Advisor

Brexit, the Public Services and the Audit Committee

The implementation of Brexit is likely to have a significant impact on the public services. As we enter a period of negotiations the final deal won't be known for some time, but it is likely that the impact will be felt well before then. Partly this will be a consequence of political and economic uncertainty which could start to settle down, but could worsen before it improves.

So what does this have to do with the audit committee? I think it is important that the committee is aware of the areas of potential risk to the organisation and encourages and supports a pragmatic approach to risk management and contingency planning. Some of the agenda items of the audit committee may include these risk areas, so it is important for the audit committee member to have an understanding of the context. Not every organisation will have the same set of risks. Factors such as the local economy, local labour market and local key employers will make a difference.

Has your organisation already identified any risks and opportunities? And is it taking steps to monitor and manage those risks?

CIPFA has founded [The Brexit Advisory Commission for Public Services](#) to examine the risks and consequences for the public services and its work will help public bodies develop their understanding of the risks.

The following may be a helpful starting point for your local risk assessment.

Potential Risk Area	Potential Impact on a Public Service Organisation
<p>Public finances</p> <p>Overall national economic performance will impact on tax revenue, and may have consequences for funding for public services, either positively or negatively.</p>	<p>Different parts of the public sector have varying degrees of reliance on public funding, however, any change to grants or funding levels will have an impact on service provision.</p>
<p>National economic trends</p> <p>Fluctuations in the exchange rate, particularly the dollar which affects fuel prices and the euro if this is important for your supply chain.</p>	<p>If the exchange rate worsens against the dollar this will make fuel more expensive, impacting on running costs.</p> <p>Some aspects of the supply chain may also be impacted if imported goods are a significant cost.</p>
<p>Workforce and students</p> <p>New rules on immigration may restrict availability of eligible applicants</p> <p>Potential to recruit employees from EU states and other countries outside the EU may be reduced if the UK is seen as less attractive because of an unfavourable exchange rate or</p>	<p>Some sectors have been identified as being highly reliant on international staff, for example the NHS and social care providers.</p> <p>Universities may also be impacted by reduced EU and international students and appointment of academic staff.</p> <p>There is the potential for reduced pressure</p>

negative publicity.	on local services such as school places or housing if immigration reduces.
<p>Local economy and key employers</p> <p>Impact of Brexit on the local economy will vary according to sector and area. This is a complex factor that needs to be looked at locally.</p>	<p>The strength of the local economy has implications for local generation of income and collection of business rates.</p> <p>Local employment rates and wage levels will impact on demand-led public services such as payment of benefits, social housing demand etc.</p>
<p>Availability of funding for investment or regeneration</p> <p>Local areas or schemes that have previously received EU funding will need to establish the likelihood of replacement UK funding.</p>	<p>Some continuity of funding has been guaranteed by the government but there remains uncertainty. For example, the Local Government Association (LGA) has recently called for £8.4bn of EU funding to be replaced after Brexit to support investment in local growth. Organisations in receipt of or anticipating EU funding will need certainty over future funding.</p>
<p>Policy changes</p> <p>In the short term there is unlikely to be any significant change but longer term could bring changes to environmental policy or regulations affecting employment or procurement.</p>	<p>Future policy changes may present opportunities to deliver services in a different way or to reduce regulatory requirements. Implementing significant changes may have consequences, for example additional resources may be need to reconfigure services and supporting processes.</p>
<p>Government priorities</p> <p>There are a range of other pressing issues for public services, including affordable housing supply, funding of social care and security. The government's ability to adequately address these issues while pursuing the Brexit negotiations will also have consequences for public services.</p>	<p>If legislation or reform of other policy matters is delayed then there may be consequences for the delivery of services and achievement of objectives.</p>

Once a risk assessment has been completed, organisations should plan mitigations or contingencies where appropriate and practical. As new information is received it is likely that the risk assessment and plans will need to be updated. The audit committee may also seek assurances on how effectively any significant risks are being monitored and managed.

For further information on The Brexit Advisory Commission for Public Services please visit [the website](#).

www.cipfa.org/services/networks/better-governance-forum

Recent Developments You May Need to Know About

Legislation and Consultations

Data Protection Bill – Statement of Intent

The government has published a Statement of Intent setting out its vision for the digital economy and its planned data protection reforms. The bill will bring the provisions of the General Data Protection Regulation into UK law from May 2018. Key changes for public bodies include the requirement to have a nominated data protection officer. Where changes are needed to meet the requirements the audit committee could support the implementation work and monitor key actions.

[Department for Digital, Culture, Media & Sport](#)

Reports, Recommendations and Guidance

Annual governance statements 2016/17

The latest date for approval of the annual government statement for local government bodies is 30 September. The statements are the first to reflect the new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) and the new principles of good governance. The previous [issue of Audit Committee Update](#) contained an article about developing an effective statement so audit committee members are recommended to review this when considering their statement.

One question that regularly comes up is whether the statement needs to be updated if new information comes to light after 31 March of the year in question. The guidance is that the statement should be up to date at the time of publication, so a significant governance issue that comes to light between 1 April and the final date of publication should be considered for inclusion in the statement.

[Delivering Good Governance in Local Government: Framework](#)

External audit appointments

Public Sector Audit Appointments (PSAA) has announced the results of the procurement exercise for external auditors of local authority, police and fire bodies. A number of contracts have been awarded and PSAA is now working on the allocation of auditors to specific clients. One of the key criteria is to avoid any conflicts of interest. PSAA plans to consult clients on its proposals before finalising appointments by 31 December 2017. Audit committees should contribute to the consultation process for their organisation. Details of fees will not be known until March when PSAA launches its consultation.

[Public Sector Audit Appointments](#)

External audit contract and quality monitoring

PSAA is responsible for monitoring the current audit contracts and publishes an annual report on the results of its work. The *Regulatory Compliance and Quality Review Programme* report for 2017 is now available. Overall the compliance and contract monitoring rating is 'amber' using a red, amber, green scale. PSAA draws on the quality review work of the Financial Reporting Council and highlights relevant areas for improvement. Audit committees should be aware that one of the areas for improvement is that external auditors should report more thoroughly to audit committees. PSAA also publishes reports for each external audit firm. More detail about the audit committee role in monitoring external audit is contained in [Issue 14 of Audit Committee Update](#). [Public Sector Audit Appointments](#)

www.cipfa.org/services/networks/better-governance-forum

Reports on the results of external auditors' work

PSAA also publishes an annual report drawing together the results from external audit opinion, one for health bodies and one for local government bodies. The report for health audits concluded for 2016/17 is now available, the local government report will be available later in the year. None of the trusts had a qualified true and fair opinion on the financial statements, but 19% had an adverse conclusion on their value for money arrangements.

[Public Sector Audit Appointments](#)

Scrutiny of treasury management

The Centre for Public Scrutiny (CfPS) has published a second edition of *Treasure Your Assets*. This guidance covers the basics of treasury management and explores the scrutiny role that is a requirement of CIPFA's [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (2011). Audit committees may sometimes undertake the scrutiny role in relation to treasury management. If this is the case then this publication will be useful in understanding more about this complex area.

[Centre for Public Scrutiny](#)

How well does scrutiny work? Scrutiny Self-evaluation Framework

As part of the annual governance review process it is helpful to consider the effectiveness of the scrutiny process. Good scrutiny is one of the contributors to good governance and the absence of effective internal challenge has been a contributing factor to governance failures. The CfPS has developed a self-evaluation framework to support improvement and it can inform the annual governance statement.

[Centre for Public Scrutiny](#)

Look Out For

Guidance for audit committees

CIPFA is currently updating the 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*. The new edition will reflect legislative changes and recent updates to governance and internal audit standards. Some of the key changes include:

- audit committees for combined authorities
- external audit appointments
- *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016)
- *Public Sector Internal Audit Standards* (2017)
- developments in good practice for audit committees to monitor and support external audit ethical standards.

The publication is due to be published in November 2017. Further details are available from [CIPFA](#).

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Certificate No.



National Audit Office

Good practice guide

Cyber and information security

Cyber security and information risk guidance for Audit Committees

SEPTEMBER 2017

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £734 million in 2016.

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This report can be found on the National Audit Office website at www.nao.org.uk

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1 Introduction

Our interactions with audit committees across the public sector suggest that, alongside rising awareness of the risks associated with cyber security, there is still considerable uncertainty about how committees can best exercise their responsibilities in this area. We have therefore produced this guidance to help them consider the issues involved and structure their discussions with management representatives.

Why this issue requires attention

Information is a critical business asset that is fundamental to the continued delivery and operation of any government service. Departments and public bodies must have confidence in the confidentiality, integrity and availability of their data. Any personal data collected, stored and processed by public bodies are also subject to specific legal and regulatory requirements.

Cyber incidents pose an increasing threat to public bodies' management of their information, with hacking, ransomware, cyber fraud and accidental information losses all present throughout the public sector. A realistic understanding of cyber issues is essential to protecting public services and users, particularly as the drive to making public services digital continues. In many organisations, the capability of staff to deal with this issue has not kept pace with the risks.

An additional complexity arises when public bodies need to share data. Organisations need to have mutual trust in each other's ability to keep data secure and take assurance from each other's risk management and information assurance arrangements for this to happen successfully. Not getting this right means that either government fails to deliver the benefits of joining up services or puts its information at increased risk by sharing it across a wider network.

Why audit committees need to monitor cyber risks

As government's guidance to audit committees makes clear, cyber security is now an area of management activity that audit committees should scrutinise.¹ Together with the rapidly changing nature of the risk, this means that there is an important role for audit committees in understanding whether management is adopting a clear approach, if they are complying with their own rules and standards and whether they are adequately resourced to carry out these activities.

1 www.gov.uk/government/uploads/system/uploads/attachment_data/file/512760/PU1934_Audit_committee_handbook.pdf

What we have found through our work

In September 2016, we published our report on *Protecting information across government*.² The report describes this devolution of the government's approach to cyber and information security and the lack of coherence between the various bodies responsible for governance, oversight and incident response.

In separate pieces of work on digital skills and online fraud, we have also noted the considerable challenge the public sector has in recruiting and retaining staff with the right experience and the lack of coordination across government and law enforcement agencies in dealing with criminal cyber activity.

Through our financial audits we routinely find weaknesses in financial system controls. We conducted detailed system audits on 30 bodies in 2017, of which 24 had access control weaknesses. We also frequently find issues in system change controls, business continuity, and third party oversight.

How government policy has changed in this area

In the past much of the guidance, governance, mandatory standards and compliance regimes were provided by the centre of government. The 2014 Government Security Policy framework remains the primary reference point for central government in this area.³ But the centre of government is increasingly stepping away from prescribing how individual departments and bodies should approach cyber risk, believing that each organisation's operating model and risk appetite should drive its own, separate response.

While this approach gives individual organisations freedom to make decisions, it also means that it is their responsibility to make their own assessments of what standards or frameworks they wish to adopt. Government has issued various sets of standards or guidance, from *10 Steps to Cyber Security*, to *Cyber Essentials*, *Get Safe Online* and *Cyber Aware*, but has not always made clear who should use which of these. In addition, bodies in some sectors, such as defence, have developed specific approaches which they use with suppliers. Others are using industry standards such as ISO 27001.

The newly established National Cyber Security Centre is bringing together some guidance and advice, but it often relates to a specific area such as the use of passwords or principles for cloud security, rather than providing an overall framework. All of this means it is vital for public bodies to decide what overall framework or approach is most suitable for them.

² www.nao.org.uk/report/protecting-information-across-government/

³ www.gov.uk/government/uploads/system/uploads/attachment_data/file/316182/Security_Policy_Framework_-_web_-_April_2014.pdf



2 Our guidance

How this guidance links to other standards

We do not wish to add to the problem described above by producing yet another set of guidance. The guidance set out in Part 4 is therefore based on the government's *10 Steps to cyber security*. We have however supplemented it in two ways. Firstly, in this section, we have considered some over-arching questions that may help audit committees address strategic issues before getting into areas of detail. Secondly, in Part 5, we have listed some other challenges not covered by the *10 Steps* guidance, to cover newer or emerging areas of technology.

What this guidance covers

What we mean by cyber security is the activity required to protect an organisation's computers, networks, software and data from unintended or unauthorized access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management processes as well as technical controls.

Cyber security is part of the wider activity of information security. Information security is a broad term that encompasses electronic, physical and behavioural threats to an organisation's systems and data, covering people and processes. Data can of course be stored both electronically and physically (e.g. on paper).

In focusing on cyber security, this guidance largely considers the security of electronic data and related processes and transactions. For some organisations with large volumes of paper records or which need to secure physical access, however, wider information security activity can be just as important to safeguard their operational performance or reputation.



3 High-level questions

In engaging with management to explore the issue of cyber security, audit committees may wish to consider various high-level issues first before discussing points of detail or technical activity. From our experience of auditing the performance of a number of different client bodies, we think the following issues represent a good set of initial topics for discussion.

In each case, we have set out a high level question and some aspects of what a good answer might look like, although these may vary by organisation. Overall, management should be able to describe a balanced approach which considers people (culture, behaviours, and skills), process, technology and governance to ensure a flexible and resilient information and cyber security response.

1 Has the organisation implemented a formal regime or structured approach to cyber security which guides its activities and expenditure?

- a** There should be some kind of information security management system in place and under active management, covering policy, processes, governance, skills and training.
- b** This might involve formal certification through schemes such as Cyber Essentials or ISO 27001. This may have been implemented or certified by consultants or specialist bodies from government.
- c** Boards, working groups and individuals should have been allocated specific responsibilities for managing cyber risks.
- d** There should be plans for resilience and recovery in place and these should be exercised regularly.
- e** There should be a clear assessment of the potential risk arising from electronic links with any supply chain or operational partners.

2 How has management decided what risk it will tolerate and how does it manage that risk?

- a** The board should have discussed its overall approach, based on a clear and common understanding of the range of information assets it holds and agreeing which of those are critical to the business.
- b** There should be a clear understanding of the kind of threats and risks the organisation actually faces, based on incident reporting and relevant performance indicators.
- c** The organisation proactively manages cyber risks as an integrated facet of broader risk management, including scrutiny of security policies, technical activity, information security breach reporting, user education and testing and monitoring regimes.
- d** The organisation may be involved in sector or peer information exchange mechanisms to improve its understanding.

3 Has the organisation identified and deployed the capability it needs in this area?

- a** There is either sufficient staff capability to deal with cyber security issues or formal arrangements made to secure this capability from external providers.
- b** There may be actively managed plans in place for the recruitment and retention of staff with specialist security skills.
- c** There should be clear policies on the handling and storage of data, based on relevant legal requirements, such as the General Data Protection Regulation.
- d** There is training available for all staff to ensure appropriate levels of awareness and compliance.
- e** Testing may be conducted to measure the effectiveness of controls.



4 More detailed areas to explore

The National Cyber Security Centre has identified 10 steps for cyber security to help organisations manage cyber risks. Based on these 10 steps we have set out below a series of more detailed questions that audit committees may wish to ask management in order to gain assurance that effective controls are in place.

As part of its assessment, audit committees should consider the quality of the evidence underpinning the assurances provided by management, including whether there is good evidence that the policies and procedures are well designed, consistently implemented, and operating effectively with an appropriate compliance regime, in all relevant areas of the business.

1 Information risk management regime

- Are the governance arrangements for managing information risk based on the importance of data?
- Do information professionals liaise with central government, stakeholders and suppliers to understand the threat?
- Does senior management understand and engage with risk mitigation processes and promote a risk management culture?

2 Secure configuration

- Does a system inventory exist?
- Are security patches applied regularly?
- Are vulnerability scans conducted regularly?
- Is there a minimum defined security requirement included in the baseline build for all devices?
- Have higher risk device users (e.g. non-executive board members, temporary staff) been identified and managed?

3 Network security

- Is the network perimeter managed?
- Do information professionals identify, group and protect critical business systems?
- Are security controls monitored and tested?

4 Managing user privileges

- Are there effective account management processes, with limits on privileged accounts?
- Are user privileges controlled and monitored on the basis of policies for user authentication and access?
- Is access to activity and audit logs controlled? Are these logs reviewed for unusual behaviour?

5 User education and awareness

- Does the organisation have security policies covering acceptable and secure use of data?
- Are there grade and role appropriate levels of staff training covering secure processes and use of systems?
- Are staff aware of information security and cyber risks?
- Do staff know how to report issues and incidents?

6 Incident management

- Does the organisation have an incident response and disaster recovery capability, with suitably trained staff?
- Are there incident management plans and are these tested?
- Are potential criminal incidents reported to law enforcement bodies and relevant data breaches reported to the Information Commissioner's Office?

7 Malware protection

- Are there effective anti-malware defences in place across all business areas?
- Is there regular scanning for malware?
- Are there controls to filter access from web browsers?
- What changes have been made as a result of monitoring results?

8 Monitoring

- Is there a monitoring strategy in place for all ICT systems and networks?
- Do logs and other monitoring activities enable the identification of unusual activity that could indicate an attack?
- Can logs support investigations by showing who accessed what, when they did so and what they did to the information?

9 Removable media controls

- Is there a policy on the use of removable media (e.g. flash drives)?
- Is data encrypted before storage on removable media?
- Are media scanned for malware before being linked to the system?

10 Home and mobile working

- Is there a clear policy on mobile working, with associated training?
- Is a secure baseline build applied to all mobile devices?
- Are data protected outside formal work environments, including in transit?



5 Additional questions

Because technology has developed since the 10 Steps guidance was published and continues to evolve, we have added below some additional questions on two critical areas which are increasingly having an impact on organisations' cyber security postures: using cloud services and developing new technology or services.

1 Using cloud services

- Has the organisation followed recognised guidance, such as the National Cyber Security Centre's cloud security principles, before committing to using cloud services?
- Does the organisation have a strategy for the use of cloud services, based on a clear understanding of personal data privacy and consent implications, as well as in-depth analysis of how cloud services will interface securely with existing services, systems and processes?
- Has the organisation undertaken due diligence on proposed cloud suppliers? This might include assessing:
 - their security accreditation and protocols;
 - contract liability for data losses or service unavailability;
 - whether they have a reputable in-house security team;
 - their approach to proactive testing and historical evidence of how they have responded to security issues;
 - whether the organisation is allowed to perform its own security testing; and
 - the organisation's ability to retain control of information when leaving the cloud provider.
- Has the technical architecture of the system, or the supplier's system, been reviewed by an appropriate security expert, providing an independent assessment of the system's design to ascertain whether the system provides a reasonable level of mitigation for potential attacks?
- Where cloud services are already being used, does the organisation have processes for checking performance against agreed security practices?
- Are plans to mitigate data loss in place, for example using point-in-time backups?

2 Development of new services or technology

- Have security considerations been formally assessed as part of new product or service development?
- Have decision-makers understood security and risk trade-offs through business cases and investment decision processes?
- How far has the organisation relied on others' research versus its own to understand the security of the new technology?
- Are system development activities undertaken in a separate environment from live services?
- How has the proposed network been designed to ensure control and, if necessary, separation of devices from other parts of the organisation's network?



6 Further resources

Below is a selection of guidance and insights that may be useful.

Government guidance

- 1 2014 Government Security Framework:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/316182/Security_Policy_Framework_-_web_-_April_2014.pdf
- 2 Cloud guidance:
www.ncsc.gov.uk/guidance/how-confident-can-you-be-cloud-security
www.ncsc.gov.uk/guidance/cloud-security-standards-and-definitions
- 3 Security frameworks:
www.ncsc.gov.uk/guidance/summary-risk-methods-and-frameworks
www.nist.gov/sites/default/files/documents/cyberframework/cybersecurity-framework-021214.pdf
- 4 Assessment of organisations information security maturity – previously centrally mandated but still used by many departments:
www.ncsc.gov.uk/articles/hmg-ia-maturity-model-iamm
www.ncsc.gov.uk/content/files/guidance_files/GPG40%20-%20Information%20Assurance%20Maturity%20Model%20-%20issue%202.1%20Oct%202015%20-%20NCSC%20Web.pdf

NAO work on information and cyber security

- 1 The digital skills gap in government: Survey findings
www.nao.org.uk/report/the-digital-skills-gap-in-government-survey-findings/
- 2 Protecting Information across government
www.nao.org.uk/report/protecting-information-across-government/
- 3 Online fraud
www.nao.org.uk/report/online-fraud/

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EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2016/17

1.0 Purpose of Report

- 1.1 To present the External Auditor's Annual Audit Letter for 2016/17 for Newark & Sherwood District Council.
- 1.2 The Annual Audit Letter summarises the key findings from the external audit work carried out by KPMG in 2016/17. It covers the 2016/17 Statement of Accounts and the Value for Money conclusion for the same year.

2.0 Background Information

- 2.1 KPMG presented details of the findings from the audit of the 2016/17 financial statements in their Annual Governance Report at the 26th July 2017 meeting of the Audit & Accounts Committee, and informed Members that they proposed to give an unqualified opinion on the statements.
- 2.2 At the same meeting KPMG also proposed to issue an unqualified opinion on the council's arrangements to secure economy, efficiency and effectiveness – the Value for Money (VfM) conclusion.
- 2.3 Unqualified audit opinions for both of these pieces of work were issued on 28th September 2017.

3.0 RECOMMENDATIONS that:-

The Committee consider the External Auditor's Annual Audit Letter for 2016/17

Background Papers

External Auditor's Annual Governance Report 2016/17
N&SDC 2016/17 Opinion and Value for Money Conclusion

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

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Your ref

Our ref **ACL/JG/16-17**

8 November 2017

Dear Sanjiv

Audit of accounts 2016/17 – Notice of certification of completion of the audit

I am pleased to advise you that the audit of Newark and Sherwood District Council's accounts for the year ending 31 March 2017 has been completed.

An unqualified opinion on the accounts was issued on 28 September 2017. On the same date we also issued an unqualified conclusion on the Authority's arrangements for securing value for money.

We have not had to exercise any statutory audit powers under the Audit & Accountability Act 2014 (the Act).

May I draw your attention to Regulation 16(1) of the Accounts & Audit Regulations 2015 which requires the Authority to publish (which must include publication on its website) a statement:

- that the audit has been concluded and that the statement of accounts have been published;
- of the rights on inspection conferred on local government electors by section 25 of the Act (inspection of statement of accounts etc.); and
- setting out the address at which, and the hours during which, those rights may be exercised.

Yours sincerely

Jon Gorrie
Director, KPMG LLP

COUNTER-FRAUD ACTIVITIES FROM 1 APRIL 2017 TO 31 OCTOBER 2017

1.0 Purpose of Report

- 1.1 To inform Members of counter-fraud activity undertaken since the last update reported on 26 April 2017.

2.0 Background Information

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

3.0 Counter Fraud Detection

- 3.1 The Housing Benefit fraud team was transferred to the Fraud and Error Service at the Department for Works and Pensions on 1 December 2015.
- 3.2 Any housing benefit cases identified as potentially fraudulent are referred to the Fraud and Error Service at the DWP for investigation.
- 3.3 Referral procedures have been established and since 1 December 2015, 58 potentially fraudulent claims for housing benefit have been referred to the Fraud and Error Service for investigation.

4.0 Other Counter-Fraud Work

- 4.1 A fraud risk workshop facilitated by Assurance Lincolnshire was carried out in January 2017, resulting in a refreshed fraud risk register that was reported to Committee in February 2017.
- 4.2 The Fighting Fraud Locally Strategy has been refreshed to become the Fighting Fraud & Corruption Locally Strategy. Its production and subsequent implementation is overseen by an independent board, which includes representation from key stakeholders. The board commissioned the drafting and publication of the strategy from the CIPFA Counter Fraud Centre. It is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape.
- 4.3 During January 2017 an internal audit review of the Council's counter-fraud arrangement was completed, following up on the recommendations from previous reports and considering work undertaken since those reviews. The report gave a substantial level of assurance. Of the three recommendations made, two in relation to the Whistleblowing Policy are in the process of completion. The Whistleblowing Policy has been updated and circulated to the Unions for comment. It will then be taken to Full Council within the update to the Constitution.

The third recommendation which related to CMT reviewing the policy for gifts and hospitality and half yearly reviewing the gifts and hospitality register has now been completed, and will continue going forward.

5.0 The National Fraud Initiative (NFI)

- 5.1 The National Fraud Initiative (NFI) is a data-matching exercise where electronic data is collected from numerous agencies including police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The data collection is carried out by the Cabinet Office and is reviewed for any matches that might reveal fraudulent activity. e.g. a record of a person's death exists, but that person is still claiming state pension. The potential matches are sent to individual bodies for investigation to check if there is another, innocent explanation. Most data sets are currently submitted every two years, apart from single person discount data which is submitted every year.
- 5.2 During 2016/17 1,046 Council Tax the single person discount awards were investigated. Of the matches generated by NFI, 91 cases of suspected fraud were identified amounting to £26,819.
- 5.3 For 2017/18, the exercise in progress has 2,360 council tax single person awards to review So far 20 awards have been processed with no fraud or errors found.
- 5.4 In addition to single person discount, a number of other data sets are currently being reviewed in this round of NFI including:- housing benefit awards, localised Council Tax support awards, taxi and alcohol licences, Council house tenancy records, and Council payroll records.

6.0 Identified Fraud

- 6.1 During October 2017 an incident was identified whereby a payment for invoices was made to a fraudulent bank account. The Council had received notification from what looked like the supplier asking to change the bank details. Unfortunately this was a fraudulent request and hence the Council paid £15,210 incorrectly. The Council has liaised with its bankers, and the building society that the money was made to and there is a high chance of receiving the funds back.
- 6.2 This issue has highlighted a failure in the process of changing bank details in the Accounts Payable system. This has been addressed with a new procedure that has been implemented.

7.0 Future Counter Fraud Work

- 7.1 Work is ongoing to identify proactive counter-fraud work that can be undertaken using the information obtained during the refresh of the fraud risk register. This work will be carried out by Assurance Lincolnshire.

8.0 Equalities Implications

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

9.0 Impact on Budget/Policy Framework

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

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

10.0 Financial Comments

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

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

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

11.0 RECOMMENDATION

That Members note the content of the report.

Reason for Recommendations

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

Background Papers

Fighting Fraud & Corruption Locally Strategy – available on the Council's website

For further information please contact Nick Wilson, Business Manager - Financial Services on Ext 5317

Nick Wilson
Business Manager - Financial Services

WORK PLAN

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
26 April 2017	Statement of Accounting Policies for 2016/17 accounts	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 for 2016/17 accounts	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
	Setting date for Statement of Accounts training session	Nicola Pickavance	
	Internal Audit Progress Report 2017/18	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 Plan for 2016/17 accounts	Jonathan Gorrie/Helen Brookes (KPMG)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts, Value for Money arrangements and Grant claims
	Initiating the Biannual 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
	Audit Committee Work Programme	Nicky Lovely	
19 June 2017	Biannual 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

20 July 2017	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
26 July 2017	Briefing session on the role of the Committee, and the role of Internal and External Audit	Nicky Lovely	Ensure that the Committee has the appropriate skills to perform its assurance and governance role
26 July 2017	Treasury Management Outturn Report 2016/17	Tara Beesley	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	External Audit Annual Governance Report 2016/17	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 2016/17 & 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 2017/18	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 2016/17	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
	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
	Report on interim arrangements for S151 Officer		Gain assurance that appropriate arrangements re financial governance are in place
	Audit Committee Work Programme	Nicky Lovely	
29 November 2017	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 2017/18	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 2016/17	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	
29 November 2017	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
7 February 2018	Draft Treasury Strategy 2018/19	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 2017/18	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 Certification of Grant Claims and Returns 2016/17	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that claims and returns have been 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	Nick Wilson	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	Nick Wilson	
	Audit Committee Work Programme	Nick Wilson	
25 April 2018	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 2017/18	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	Nick Wilson	Understand the level of assurance for critical systems, due diligence activities, key risks and projects
	Draft Annual Internal Audit Plan 2018/19	Nick Wilson	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	Counter-Fraud Activity Report	Nick Wilson	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Responses to questions raised at previous meeting	Nick Wilson	

	Audit Committee Work Programme	Nick Wilson	
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