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Audit and Accounts Committee

Date of Meeting: Wednesday 11 February 2015
Time: 10am
Venue: G21, Kelham Hall

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

3rd February 2015

To: All Members of the Audit & Accounts Committee

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

A pre-meeting for Members of the Committee will be held prior to the meeting, at 9:30am in G21.

A W Muter
Chief Executive

AGENDA
11 February 2015

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Any questions relating to the agenda items should be submitted to David Dickinson- Director-Resources, at least 24 hours prior to the meeting in order that a full response can be provided.

Distribution

Councillors:

Mrs R. Crowe
J. Bradbury
Mrs M. Dobson
P. Handley
Mrs S.M. Michael (C)
D. Staples

Officers:

D. Dickinson
N. Lovely
A. Hunt (Audit Lincs)
Lucy Pledge (Audit Lincs)
John Sketchley (Audit Lincs)
John Cornett (KPMG)
Helen Bayne (x2)

NEWARK & SHERWOOD DISTRICT COUNCIL

Minutes of the meeting of the **AUDIT & ACCOUNTS COMMITTEE** held in Room G21, Kelham Hall on Wednesday 5 November 2014 at 9:30am.

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

Councillors: J. Bradbury, Mrs R. Crowe, G.P. Handley, and D. Staples.

ALSO IN ATTENDANCE: David Dickinson (Director – Resources (NSDC))
Nicola Lovely (Business Manager – Financial Services (NSDC))
Tara Beesley (Accountant- NSDC)
John Sketchley (Audit Lincolnshire)
Amanda Hunt (Audit Lincolnshire)
Helen Brooks – (KPMG)

26. APOLOGIES FOR ABSENCE

Apologies for absence were submitted by Councillor Mrs M. Dobson, and John Cornett- (KPMG).

27. 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.

28. DECLARATION OF ANY INTENTION TO RECORD THE MEETING

None.

29. MINUTES OF MEETING HELD ON 11 SEPTEMBER 2014

AGREED that the Minutes of the meeting held on 11 September 2014 be approved as a correct record and signed by the Chairman.

30. MID-YEAR TREASURY PERFORMANCE REPORT

The Committee considered the report of the Director- Resources providing an update on the Council's treasury activity and prudential indicators for the first half of 2014/15. No prudential indicators had been breached during the monitoring period, and a prudent approach to investments had been taken, with priority given to security and liquidity over yield. The economic background provided by the Council's treasury consultant, Arlingclose, was included as an appendix to the report provided to the Committee. Within the local context, it was noted that the Council had an increasing Capital Finance Requirement over the next three years, due to the capital programme, and would therefore be required to borrow £13.2 million over the period. Previously internal borrowing had been the best option for the Council, however, the funds that had been used for this would be required for the purposes they were set aside for, and therefore external borrowing would be necessary.

Members considered the Council's investment activity and the Counter Party update.

The Director- Resources explained that where a bank rating affected the criteria for the Council's counterparty list, the bank could be removed from the list immediately.

AGREED That:

- a) the treasury activity be noted; and
- b) the prudential indicators be noted.

31. INTERNAL AUDIT PROGRESS REPORT

The Committee considered the report from the Head of Audit and Risk Management detailing progress of the Internal Audit. Final reports had been issued for Auto-enrolment, ICT Partnership Arrangements, Members Allowances and Project Management - National Civil War Centre. The key points from the reports were summarised and it was noted that they had all been rated as either effective, or in the case of ICT Partnership Arrangements, with some improvement needed. Community Safety had been removed from the Audit Plan, as a recent commissioning review had provided assurance in the area.

The Committee noted the overall progress and performance information against the audit plan and noted one outstanding medium recommendation in street cleansing. There were no outstanding high priority recommendations. Members requested information as to why there was an outstanding recommendation from the street cleansing audit.

John Sketchley (Audit Lincs), confirmed that there were no concerns regarding the delivery of the audit plan for Newark and Sherwood Homes.

AGREED That the report be noted.

32. ANNUAL AUDIT LETTER

Helen Brooks (KPMG) was in attendance to present the Annual Audit letter and progress report 2013/14, summarising the key findings from the external audit work including the Statement of Accounts and Value for Money conclusion from 2013/14. The key headlines from the report were summarised including: the VFM conclusion and risk areas; the Audit Opinion; Financial Statement audit; Annual Governance Statement; the Whole of Government Accounts; and finally the audit certificate and fee.

The progress report gave an overview on how KPMG were delivering their responsibilities as the Council's external auditor, and the main technical issues that were currently impacting on local government. There were no issues rated as high impact, but there were two issues rated as having a 'medium impact' on the authority, which were the consultation on the draft Code of Audit Practice for the audit of local public bodies, and the consultation on the simplification and streamlining of the presentation of Local Authority Financial Statements.

Members considered the details regarding the Audit Fee, noting additional fees resulting from extra work undertaken on Non Domestic Rates and the development of

the new Leisure Centre. The Director- Resources noted that the rebate from the Audit Commission would at least cover the cost of the additional work relating to Non Domestic Rates.

Regarding the technical issues highlighted as 'medium impact', the Committee considered the Councils response to these. It was noted the Draft Code of Audit Practice was likely to have a greater impact on smaller local government organisations, such as town and parish councils. These were represented by NALC who could respond to the consultation on their behalf. Officers felt that, with regard to the consultation on simplification and streamlining of Local Authority Financial Statements, it was unlikely that there would be any significant simplification due to the nature of local government accounting. However, any simplifications that could be made were welcomed.

AGREED That the Annual Audit letter and Progress Report for 2013/14 be noted.

33. COUNTER FRAUD ACTIVTY REPORT

The Business Manager- Financial Services presented a report detailing Counter Fraud activities between 1 April 2014 and 30 September 2014. The Council had successfully prosecuted two people for fraudulent benefit claims, totalling £9,554, which was recoverable. One other person had accepted an administration penalty of £1,650 for fraudulent benefit claims to avoid prosecution, reducing officer time and costs.

Other counter fraud work undertaken was detailed within the report, including development of the Counter Fraud section of the intranet and the internet, training for members, and an on-going audit of counter fraud looking at the controls in place to manage fraud risks in procurement. Collection of data for the 2014/15 National Fraud Initiative had begun and it was noted that whilst it required resources to investigate potential matches, it was a Government requirement that Councils take part. When the initiative had been undertaken in 2012/13, three cases of fraud had been identified, and 27 cases of overpayments due to error. £26,512 was under recovery and 138 cases of Single Person Council Tax Benefit Discount had been cancelled resulting in a saving amounting to £69, 575 for the Council and pre-cepting authorities.

AGREED That the Committee noted the report.

34. ANNUAL REVIEW OF THE EFFECTIVENSS OF THE INTERNAL AUDIT FUNCTION

The Business Manager- Financial Services, presented a report initiating the annual review of the effectiveness of the Internal Audit Function. The Council was required to review the function on an annual basis and the Audit and Accounts Committee was most appropriately positioned to undertake the review. The effectiveness of the internal audit team would be measured against the Public Sector Internal Audit Standards (PSIAS) and the effectiveness of the Audit and Accounts Committee reviewed using the self-assessment checklist from CIPFA's Audit Committees – Practical Guidance for Local Authorities.

It was proposed that a working group to carry out the review should be comprised of the Chairman and one other Member of the Committee, and the Director- Resources and the Business Manager-Financial Services.

AGREED That

- a) a joint Member/officer working group comprising of the Chairman of the Committee, Councillor D. Staples, the Director- Resources and the Business Manager - Financial Services be convened;
- b) the group undertake the review of effectiveness of the internal audit team; and
- c) the group carry out a self-assessment of the effectiveness of the Committee.

35. RESPONSES TO QUESTIONS RAISED AT PREVIOUS MEETING

The Committee considered the report from the Director- Resources, detailing responses to questions raised at the previous meeting of the Committee. Members briefly discussed the LSP and the general move within local government toward a combined authority approach.

AGREED that the report be noted.

36. WORK PLAN

AGREED that the workplan be noted.

37. DATE OF NEXT MEETING

The next meeting would be on Wednesday 11 February 2015, 10am.

The meeting closed at 10.30am

Chairman

11TH FEBRUARY 2015

TREASURY PERFORMANCE REPORT APRIL TO DECEMBER 2014

REPORT PRESENTED BY TARA BEESLEY, ACCOUNTANT

1. Purpose of Report

This report updates members on the Council’s treasury activity and prudential indicators for 2014/15 up to 31st December 2014. 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. Economic Background

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

3. Borrowing Strategy

At 31st December 2014 the Council held £91.3m of loans, a decrease of £5.7m on 31st March 2014. This is set out in further detail at **Appendix B**.

The Council does not expect to undertake borrowing in 2014/15 other than for cash flow purposes.

Borrowing Activity in 2014/15

	Balance on 01/04/2014 £m	Debt Repaid £m	New Borrowing £m	Balance at 31/12/2014 £m
CFR	121.6			120.9
Short Term Borrowing	3.8	10.8	8.1	1.1
Long Term Borrowing	93.2	3	0	90.2
TOTAL BORROWING	97	13.8	8.1	91.3
Other Long Term Liabilities	0.2	0	0	0.2
TOTAL EXTERNAL DEBT	97.2	13.8	8.1	91.5
Increase/ (Decrease) in Borrowing				(5.7)

PWLB Certainty Rate and Project Rate Update: The Council qualifies for borrowing at the ‘Certainty Rate’ (0.20% below the PWLB standard rate) for a 12 month period from 1st November 2014. In April the Council submitted its application to the CLG along with the 2015/16 Capital Estimates Return to access this reduced rate for a further 12 month period from 1st November 2015.

For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. This has lowered overall treasury risk by reducing both external debt and temporary investments. However it is recognised that this position will not be sustainable over the medium term and it is anticipated that the Council

may need to borrow externally in the next financial year to fund the capital programme. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Council's treasury advisors.

4. **Investment Activity**

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

Investment Activity in 2014/15

	Balance on 01/04/14 £m	Investments Made £m	Investments Repaid £m	Balance at 31/12/14 £m
Short Term Investments	10.3	117.6	116	11.9

There have been no long term investments. A full breakdown of all investment and borrowing balances is given at **Appendix B**.

Security of capital has remained the Council's main investment objective. This has been maintained following the Council's counterparty policy set out in its Treasury Management Strategy Statement for 2014/15.

5. **Counterparty Update**

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

6. **Outlook for Quarter 4 2014/15**

There is momentum in the UK economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening. In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone.

While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.

Arlingclose projects a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited with the normalised level of Bank Rate post-crisis likely to range between 2.5% and 3.5%. Market expectations are now also for a later increase in interest rates and a more muted increase in gilt yields.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Average
Official Bank Rate														
Upside risk				0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75	1.17
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	

7. **Summary**

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the third quarter of 2014/15. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

8. **Recommendation**

That the Treasury Management position at the end of Quarter 3 be approved.

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

David Dickinson
Director – Resources

Growth and Inflation: Falling prices and the outlook for commodities, most notably oil, was the main driver of markets in the final calendar quarter of 2014 as crude oil prices more than halved over the 12 month period and fell to a four year low.

The UK economy slowed a little in Q3 following stronger performance in Q2. Output grew by 0.7%, following 0.6% in Q1 2014 and at 0.8% in Q2. The services sector drove the expansion once again, with marginal contributions from industrial production and construction. In spending terms, growth was led by household consumption.

Concerns about the strength of global GDP growth became more widespread, with data showing that the Eurozone was stagnating and facing deflation and that Chinese growth was easing. Other emerging market economies also experienced softer economic activity. The main consequence of the weaker global outlook was a significant decline in oil prices, which had already been under pressure due to increased supply. This fed into domestic fuel prices and placed downward pressure on inflation rates. The annual UK CPI inflation rate fell to 0.5% year-on-year in December, outside of the MPC's target range of 2% +/- 1%.

Unemployment: The labour market continued to improve, although employment gains slowed a little compared to earlier in the year; the headline unemployment rate fell to 6.0%. Earnings growth strengthened, rising 1.4% for the three months August to October 2014 when compared to the same period a year earlier. The pickup in nominal earnings growth combined with the fall in inflation suggests a sustained pickup in real wage growth, the first since 2007.

Monetary Policy: The MPC made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. MPC members Ian McCafferty and Martin Weale continued to vote for an increase in Bank Rate by 0.25%, arguing economic circumstances were sufficient to justify an immediate rise. However, the softening outlook for CPI inflation appears to have given the more dovish members of the Committee a strong argument for maintaining Bank Rate at 0.5%. The MPC continued to emphasise that when Bank Rate did begin to rise, it was expected to do so only gradually and would likely remain below average historical levels for some time to come.

The Eurozone inflation rate dipped below zero in December (HICP inflation registered -0.2% in December). Pressure grew on the ECB to implement outright quantitative easing (QE) beyond the current asset purchase programme focused on covered bonds and asset backed securities; the ECB's Executive Committee made speeches across Europe giving stronger hints that the first quarter of 2015 would be the most likely period for its announcement. The MPC viewed the Eurozone's economic weakness and deflation as significant risks to the UK's economic prospects.

The US Federal Reserve concluded monthly asset purchases under its QE program as expected in October. After a weather-hit Q1, the US economy expanded strongly in Q2 and Q3, prompting analysts to bring forward expectations of a rise in the official policy rate.

Market reaction: Gilt yields continued to decline on the back of softening inflation expectations and increasing concerns about global growth and the Eurozone. The 10 year gilt yield closed 2014 at 1.76%, down from 2.43% at the end of September. Short term market interest rates also declined as the expectation of an imminent rise in the UK Bank Rate was all but ruled out.

Appendix B

Treasury Management Report as at 31st December 2014					
A. Short Term Position					
A1 Temporary Loans					
Lender	Interest paid gross of fee	Type	Date Borrowed	To be Repaid	Period end Balance
Newark & Sherwood Homes	0.35%	Call	n/a	n/a	886,230
Southwell LC Trust	0.35%	7 day notice	n/a	n/a	141,005
Total Temporary Loans				(a)	1,027,235
A2 Temporary Investments					
Borrower	Interest Rate	Type	Date Invested	To be Repaid	Period end Balance
NatWest SIBA Account	0.50%	Call	n/a	n/a	25,000
Santander	0.50%	Call	n/a	n/a	5,000,000
Handelsbanken	0.35%	Call	n/a	n/a	70,000
Goldman Sachs Treasury Money Market Fund	0.32%	Call	n/a	n/a	10,000
Deutsche Bank Sterling Money Market Fund	0.36%	Call	n/a	n/a	1,390,000
Lloyds TSB	0.57%	32 Day Notice	n/a	n/a	2,000,000
Glitnir ISK balance in escrow	4.20%	Fixed	16-Mar-12	tba	443,399
Lloyds TSB	0.57%	Fixed	08-Oct-14	08-Jan-15	1,000,000
Lloyds TSB	0.57%	Fixed	12-Nov-14	12-Feb-15	1,000,000
Lloyds TSB	0.57%	Fixed	14-Nov-14	13-Feb-15	1,000,000
Total Temporary Investments				(b)	11,938,399
Bank Balance 31st December 2014				(c)	7,531
A3 Short Term Position - Net Invested/(Borrowed)				(d)=(b+c-a)	10,918,695
Average variable rate earned to date	0.47%				
Average fixed rate earned to date	0.59%				
<i>Note - This excludes the Glitnir deposit</i>					
B. Long Term Position					
B1 Long Term Loans					
	Average Interest Rate	Type	Date Borrowed	To be Repaid	
Public Works Loans Board (41 loans)	4.54%	Maturity	Various	Various	73,078,000
Public Works Loans Board (21 loans)	9.05%	Annuity	Various	Various	589,257
Barclays Bank (4 loans)	4.09%	LOBO	Various	Various	13,000,000
BAe Systems Pension Funds (2 loans)	3.75%	LOBO	01-Dec-11	01-Dec-16	3,500,000
Total Long Term Loans				(e)	90,167,257
Please note the interest rate for long term loans is an average of the total loans for each category					
B2 Long Term Investments					
	Interest Rate	Type	Date Borrowed	To be Repaid	
None					
Total Long Term Investments				(f)	0
B3 Net Long Term Position				(g) (e-f)	90,167,257
C. Net Indebtedness				(g)-(d)	79,248,562

Counterparty Update

In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full-blown Eurozone crisis. Durations for new unsecured investments with banks and building societies which were previously at 13 months [Lloyds Bank, Santander UK, Handelsbanken] were reduced from 13 months to 6 months and the duration for new investments with Deutsche Bank was reduced from 6 months to 100 days.

Later in the month the Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place. There was also confirmation that the UK now has one of the most advanced resolution regimes in this respect. The combined effect of the Bank Recovery and Resolution Directive (BRRD) and Deposit Guarantee Scheme Directive (DGSD) is to promote the entire deposits of all non-financial companies above those of public authorities and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.

The European Central Bank published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25bn (£20bn) in total – none of the failed banks featured on the Council's lending list. In December the Bank of England announced the results of its first stress testing exercise of the UK banking system. The Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests were HSBC Bank, Barclays Bank, Santander UK plc, Standard Chartered and Nationwide Building Society. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland; their capitalisation will have to be strengthened relative to their position at the end of 2013. Lloyds Banking Group, [whose constituent banks are on the Council's lending list], is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS, which is not on the Council's lending list for investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank failed the test.

In December S&P downgraded the short and long term credit ratings of Standard Chartered Bank to A-1/A+ from A-1+/AA- and maintained the negative outlook. The bank remains an investment counterparty.

DRAFT TREASURY STRATEGY REPORT 2015/16

1.0 Introduction

1.1 The attached draft report, to be considered by Council on 10th March, outlines the Council's Treasury Strategy for 2015/16 and subsequent years and sets out the expected treasury operations for this period. It is based on the latest capital programme submitted to Policy Committee adjusted for any known variations.

2.0 Purpose

2.1 This report fulfils four key legislative requirements:

a) Prudential Indicators.

The reporting of the prudential indicators setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities) are shown in the body of the report.

b) Minimum Revenue Provision Policy,

This sets out how the Council will pay for past and future capital investment assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007) see paragraph 7.3 of the report;

c) The Treasury Management Strategy statement

This sets out how the Council's treasury service will support the capital decisions taken above, carry out the day to day treasury management and the limitations on such activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code;

d) Investment Strategy

The strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and is shown paragraph 5 of the report.

Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2011 and the CLG introduced changes to Investment Guidance in April 2010. The revised guidance arising from these Codes has been incorporated within these reports.

3.0 RECOMMENDATIONS:-

The Audit and Accounts Committee recommends for Council approval the following:

- a. **The Treasury Management Strategy 2015/16,**
- b. **The investment counterparty criteria listed in paragraph 5.4 of the report,**
- c. **The Prudential Indicators and Limits set out in the report,**
- d. **The Minimum Revenue Provision statement contained in paragraph 7.3 of the report.**

Background Papers

Treasury Management in the Public Services – CIPFA 2011

The Prudential Code for Capital Finance in Local Authorities – CIPFA 2011

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

D. Dickinson

Director - Resources

TREASURY MANAGEMENT STRATEGY STATEMENT 2015/16

1.0 Introduction

- 1.1. In January 2010 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
- 1.2. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.
- 1.3. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

2.0 External Context

- 2.1. **Economic background:** There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is currently extremely benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.
- 2.2. The Bank of England's Monetary Policy Committee's (MPC) focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings between August and December 2014, the minutes of the January 2015 meeting showed unanimity in maintaining the Bank Rate at 0.5% as there was sufficient risk that low inflation could become entrenched and the MPC became more concerned about the economic outlook.
- 2.3. **Credit outlook:** Two European Union directives will become law in the UK in the coming months and will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promote the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, **the credit risk associated with making unsecured bank deposits will increase** relative to the risk of other investment options available to the Council.

- 2.4. **Interest rate forecast:** The Council's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 2.7%.

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

3.0 **Local Context**

- 3.1. The Council currently has £91.2m of borrowing and £11.9m of investments (as at 31st December 2014). This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.14 Actual £m	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m
General Fund CFR	17.5	16.8	23.5	28.4	27.7
HRA CFR	104.1	104.1	104.1	104.1	104.1
Total CFR	121.6	120.9	127.6	132.5	131.8
Less: Other debt liabilities	0.2	0.2	0.2	0.2	0.2
Borrowing CFR	121.4	120.7	127.4	132.3	131.6
Less: External borrowing	97	95.7	98.5	100.7	100.6
Internal borrowing	24.4	25	28.9	31.6	31

- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 3.3 The Council has an increasing CFR due to the capital programme, but minimal investments and will assess the capital financing need to borrow, taking into account the ability for internal borrowing.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2015/16.

4.0 Borrowing Strategy

4.1. The Council currently holds £91.2 million of loans (as at 31st December 2014), a decrease of £5.8 million on the previous year, as part of its strategy for funding previous years' capital programmes. The Council's current capital programme shows we may need to borrow up to £7.4m in 2015/16, and may also need borrow additional sums in future years.

4.2. **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.3. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term instead.

4.4. By using internal resources, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5. In addition, the Council may use short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

4.6. **Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and its successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- Capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues

4.7. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- sale and leaseback

- 4.8 The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.
- 4.9 **LGA Bond Agency:** Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities
- 4.10 **LOBOs:** The Council holds £16.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £3.5m of these LOBOs have options during 2015/16, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.
- 4.11 **Short-term and Variable Rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.
- 4.12 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5.0 **Investment Strategy**

- 5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first 10 months of 2014/15, the Council's investment balance has ranged between £9.6 and £22 million. Levels available for investment are affected by capital expenditure and will continue to be monitored.
- 5.2. **Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.
- 5.3. **Strategy:** Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council will consider diversifying into more secure asset classes during 2015/16. All of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, and money market funds.
- 5.4. **Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 20 years	n/a	n/a
AAA	£5m 3 years	£10m 10 years	£10m 20 years	£5m 10 years	£5m 10 years
AA+	£5m 2 years	£10m 4 years	£10m 5 years	£5m 4 years	£5m 4 years
AA	£5m 1 year	£10m 2 years	£10m 3 years	£5m 2 years	£5m 4 years
AA-	£5m 1 year	£10m 2 years			£5m 4 years
A+	£5m 6 months	£10m 1 year			£5m 2 years
A	£5m 6 months	£10m 1 year			£5m 2 years
A-	£5m 3 months	£10m 6 months			£5m 2 years
BBB+	£0.25m next working day only	£5m 3 months			£0.25m 1 year
BBB or BBB-	£0.25m next working day only	£0.25m next working day only			n/a
None		n/a			£5m 2 years
Pooled funds	£10m per fund				

This table must be read in conjunction with the notes below.

- 5.5. **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.
- 5.6. **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB+, BBB or BBB- are restricted to overnight deposits. The Council's current account bank (Natwest Bank plc) is currently rated below A-.
- 5.7. **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to

determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- 5.8. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.9. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.
- 5.10. **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.
- 5.11. **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 5.12. The Council may consider investing in Property Funds. Discussions with the Councils treasury advisers Arlingclose have identified the potential to invest in managed property funds, whereby a third party pools investments from local authorities to purchase commercial properties and earn lease income from them. The third party manages the property portfolio removing the need for local authorities to have the relevant expertise, and the return on investment is usually higher than for equivalent investments with financial institutions. These funds should only be used for longer term investments to achieve a reasonable return, therefore the decision to invest in them will be made in conjunction with consideration of the use of internal reserves to fund the capital programme.
- 5.13. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
- 5.14. **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
 - no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

- 5.15. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 5.16. **Other Information on the Security of Investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 5.17. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 5.18. **Specified Investments:** The CLG Guidance defines specified investments as those:
- denominated in pound sterling,
 - due to be repaid within 12 months of arrangement,
 - not defined as capital expenditure by legislation, and
 - invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

- 5.19. **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.
- 5.20. **Investment Limits:** A group of banks under the same ownership will be treated as a single organisation for limit purposes.

- 5.21. **Liquidity Management:** The Council maintains a daily cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Any proposed long term investments are set by reference to the Council's medium term financial plan, capital programme and cash flow forecast.
- 5.22. **Convertible Loans:** At the meeting of the Think BIG Policy Monitoring Group on 13th January 2015, a proposal was agreed that Think BIG loans should contain within the agreements an option for a loan to be converted to equity under certain circumstances. This proposal and a recommendation from the group that it be adopted will be presented to Policy & Finance Committee and full Council. Although the loans remain part of the Think BIG fund, any conversion to equity would become an investment. If the proposal to include conversion terms in Think BIG loans is agreed, it is necessary that reference to them is included in the Treasury Management Strategy.

6.0 **Treasury Management Indicators**

- 6.1 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2015/16 £m	2016/17 £m	2017/18 £m
<u>Fixed Rate</u>			
Borrowing	118.7	120.8	120.7
Investments	-5.3	-5.3	-5.3
Net Upper limit on fixed rate exposure	113.4	115.5	115.4
<u>Variable Rate</u>			
Borrowing	29.6	30.1	30.1
Investments	-24.7	-24.7	-24.7
Net Upper limit on variable rate exposure	4.9	5.4	5.4

- 6.2 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

- 6.3 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£2m	£2m	£2m

- 6.4. **Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	125.5	128.3	130.5	130.4
Other long-term liabilities	0.4	0.4	0.4	0.4
Total Debt	125.9	128.7	130.9	130.8

- 6.5. **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
HRA Borrowing	112.5	112.5	112.5	112.5
General Fund Borrowing	32.3	35.8	38.4	38.3
Other long-term liabilities	0.6	0.6	0.6	0.6
Total Debt	145.4	148.9	151.5	151.4

7.0 Other Items

- 7.1. There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.
- 7.2. **Policy on Apportioning Interest to the HRA:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.
- 7.3. **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.

- 7.4. **Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

- 7.5. **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

- 7.6. **Investment of Money Borrowed in Advance of Need:** The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

8.0 **Recommendation: that the Council approves**

- **the Treasury Management Strategy**
- **the investment counterparty criteria listed in paragraph 5.4 of the report**
- **the Prudential Indicators and Limits set out in paragraph 6 of the report.**
- **the Minimum Revenue Provision statement set out in paragraph 7.3 of the report.**

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

David Dickinson
Director – Resources

Arlingclose Economic & Interest Rate Forecast January 2015**Underlying assumptions:**

- The UK economic recovery slowed towards the end of 2014, with economic and political uncertainty weighing on business investment. However, the Q3 growth rate of 0.7% remains slightly above the long run average, suggesting the recovery remains robust.
- Household consumption is key to the recovery in 2015. While we expect consumption growth to slow, given softening housing market activity and slower employment growth, the fall in inflation and resulting rise in both real (and nominal) wage growth and disposable income should support spending.
- Inflationary pressure is currently low (annual CPI is currently 0.5%) and is likely to remain so in the short-term. The fall in oil prices has yet to feed fully into the prices of motor fuel and retail energy and CPI is expected to fall further. Supermarket price wars are also expected to bear down on food price inflation.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth is strengthening, but remains relatively weak in historical terms, despite large falls in unemployment. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.
- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- The ECB has introduced outright QE as expected. While this may alleviate some of the anxiety about the economic potential of the Eurozone, political risk remains significant (e.g. Greek election). Therefore fears for the Eurozone are likely to maintain a safe haven bid for UK government debt.

Forecast:

- We continue to forecast the first rise in official interest rates in Q3 2015, but the risks to this forecast are very much weighted to the downside. The February Inflation Report will be key to our review of the possible path for Bank Rate.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- Market sentiment (derived from forward curves) has shifted significantly lower in the past three months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.
- The short run path for gilt yields has flattened due to the sharp decline in inflation expectations. We project gilt yields on an upward path in the medium term.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.55	0.60	0.80	0.90	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.95	2.00
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	0.95	0.95	0.95	0.95	1.00
1-yr LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.95	1.00	1.20	1.30	1.45	1.55	1.70	1.80	1.95	2.05	2.20	2.35	2.40
Downside risk	0.15	0.20	0.30	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80	0.80	0.80
5-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50
Arlingclose Central Case	1.10	1.20	1.30	1.40	1.50	1.65	1.80	1.95	2.10	2.20	2.35	2.40	2.50
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.75
10-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.55	0.55
Arlingclose Central Case	1.60	1.70	1.80	1.90	2.00	2.15	2.30	2.45	2.60	2.70	2.85	2.90	3.00
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.75	0.80
20-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.10	2.20	2.30	2.35	2.45	2.50	2.65	2.75	2.90	3.00	3.15	3.20	3.30
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90
50-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.15	2.25	2.35	2.40	2.50	2.55	2.70	2.80	2.95	3.05	3.20	3.25	3.35
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90

Existing Investment & Debt Portfolio Position

Appendix B

Treasury Management Report as at 31st December 2014					
A. Short Term Position					
A1 Temporary Loans					
<u>Lender</u>	<u>Interest paid gross of fee</u>	<u>Type</u>	<u>Date Borrowed</u>	<u>To be Repaid</u>	<u>Period end Balance</u>
Newark & Sherwood Homes	0.35%	Call	n/a	n/a	886,230
Southwell LC Trust	0.35%	7 day notice	n/a	n/a	141,005
Total Temporary Loans				(a)	1,027,235
A2 Temporary Investments					
<u>Borrower</u>	<u>Interest Rate</u>	<u>Type</u>	<u>Date Invested</u>	<u>To be Repaid</u>	<u>Period end Balance</u>
NatWest SIBA Account	0.50%	Call	n/a	n/a	25,000
Santander	0.50%	Call	n/a	n/a	5,000,000
Handelsbanken	0.35%	Call	n/a	n/a	70,000
Goldman Sachs Treasury Money Market Fund	0.32%	Call	n/a	n/a	10,000
Deutsche Bank Sterling Money Market Fund	0.36%	Call	n/a	n/a	1,390,000
Lloyds TSB	0.57%	32 Day Notice	n/a	n/a	2,000,000
Glitnir ISK balance in escrow	4.20%	Fixed	16-Mar-12	tba	443,399
Lloyds TSB	0.57%	Fixed	08-Oct-14	08-Jan-15	1,000,000
Lloyds TSB	0.57%	Fixed	12-Nov-14	12-Feb-15	1,000,000
Lloyds TSB	0.57%	Fixed	14-Nov-14	13-Feb-15	1,000,000
Total Temporary Investments				(b)	11,938,399
Bank Balance 31st December 2014				(c)	7,531
A3 Short Term Position - Net Invested/(Borrowed)				(d)=(b+c-a)	10,918,695
Average variable rate earned to date	0.47%				
Average fixed rate earned to date	0.59%				
<i>Note - This excludes the Glitnir deposit</i>					
B. Long Term Position					
B1 Long Term Loans					
	<u>Average Interest Rate</u>	<u>Type</u>	<u>Date Borrowed</u>	<u>To be Repaid</u>	
Public Works Loans Board (41 loans)	4.54%	Maturity	Various	Various	73,078,000
Public Works Loans Board (21 loans)	9.05%	Annuity	Various	Various	589,257
Barclays Bank (4 loans)	4.09%	LOBO	Various	Various	13,000,000
BAe Systems Pension Funds (2 loans)	3.75%	LOBO	01-Dec-11	01-Dec-16	3,500,000
Total Long Term Loans				(e)	90,167,257
Please note the interest rate for long term loans is an average of the total loans for each category					
B2 Long Term Investments					
	<u>Interest Rate</u>	<u>Type</u>	<u>Date Borrowed</u>	<u>To be Repaid</u>	
None					
Total Long Term Investments				(f)	0
B3 Net Long Term Position				(g) (e-f)	90,167,257
C. Net Indebtedness				(g)-(d)	79,248,562

INTERNAL AUDIT PROGRESS REPORT

REPORT PRESENTED BY: HEAD OF AUDIT AND RISK MANAGEMENT – AUDIT LINCOLNSHIRE

1.0 Purpose of Report

To present the latest Internal Audit Progress Report which covers the period up to January 2015.

2.0 Introduction

The purpose of the internal audit progress report (Annex A) is to provide a summary of Internal Audit work undertaken during 2014/15 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.

David Dickinson
Director of Resources



Public Sector Auditing.... Private Sector Thinking

Internal Audit - Progress Report 2014 / 15

DRAFT



Date: January 2015

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Contact Details:

Lucy Pledge CMIIA
Head of Audit & Risk Management



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Introduction

- 1 The purpose of this report is to:
- Advise of progress being made with the Audit Plan
 - Provide details of the audit work during the period
 - 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 The revised plan* for 2014/15 now contains 45 audits and so far there are:

- | | |
|----------------------------------|-------------|
| ■ 24 audits complete | 53% of jobs |
| ■ 5 audits at draft report stage | 11% of jobs |
| ■ 5 audits at fieldwork stage | 11% of jobs |
| ■ 5 audits at scoping stage | 11% of jobs |

*The revised plan consists of the audits within the 2014/15 plan and those carried forward from 2013/14.

- 3 We are pleased to report that we have issued three reports since the last Committee with one of these providing Effective Assurance and the remaining two Some Improvement Needed assurance. There were no reports with the assurance level of Major Improvement needed.

Internal Audit work completed from October to January 2015

- 4 The following audit work has been completed and final reports issued:

Effective	Some Improvement Needed	Major Improvement Needed	Inadequate
<ul style="list-style-type: none"> ■ Financial Systems - Ledger 	<ul style="list-style-type: none"> ■ Housing Strategy ■ Hawtonville Neighbourhood Study 	<ul style="list-style-type: none"> ■ None 	<ul style="list-style-type: none"> ■ None

Note The Audit and Accounts Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 1.

5 We are pleased to report that we have not issued any reports in this period with the assurance level of Major Improvement Needed or Inadequate.

6 It is also pleasing that recommendations are generally being implemented on time with no high risk recommendations outstanding, two medium risk recommendations outstanding and only 8 revised. Appendix 2 provides more detail on the progress with the implementation of agreed management action.

7 In the audits given the assurance levels of Effective or Some Improvement Needed, we confirmed that the Council has sound processes in place:-

Financial Systems - Ledger

- The opening balances were correctly carried forward from 2013/14.
- Supporting information is available for Journals ensuring that they were made appropriately.
- Suspense accounts are reviewed on a frequent basis and cleared as far as possible. The balance remaining on the accounts are not significant.
- Control accounts are reconciled monthly.
- Reconciliations between the main feeder systems are undertaken.
- Access to the ledger is controlled with a two stage process in place for setting up new users and a process for de-activating leavers.

Housing Strategy

We found effective processes in place to manage:-

- The governance of the developing strategy.
- production of financial assumptions through the Housing Revenue Account Business Plan.
- updating of the housing needs assessment.
- relationships particularly with the housing provider, Newark & Sherwood Homes.

Hawtonville Neighbourhood Study

- A project approach has been established. Delivery against the project plan is slightly behind, but this is being managed.
- A governance structure has been established and regular meetings have been established internally and externally.
- Positive engagement has begun.

Other Significant Work

8 Combined Assurance Model 2014/15

Meetings have been held with the Business Managers and the draft report and map have been presented to CMT. The report is being finalised and will be presented to the Committee in April.

9 Missing Triplicate Receipt book

At the request of Management we carried out a brief investigation into the circumstances around a triplicate receipt book which was missing from a delivery of new books. The investigation found a number of control weaknesses in the ordering and receipt of controlled stationery. Management are now in the process of addressing these.

Audits in Progress

10 The following audits are at draft report stage

Audits at Draft Report Stage

- Safeguarding
- Data Protection
- Corporate Counter Fraud
- Industrial Units
- Combined Assurance

Audits in Progress

- ICT Infrastructure - Fieldwork
- Development Control – Fieldwork
- Health and Safety – Fieldwork
- Palace Theatre – Fieldwork
- Print Project - Fieldwork
- Contract Management – Client Brief
- Insurance - Scoping
- Partnership Working – Scoping
- Emerging Risks – Scoping
- Leisure Centres – Scoping

Performance Information

11 Our current performance against targets is shown below:-

Performance Indicator	Target	2014/15 Actual @ 09/01/15
Percentage of plan completed.	100% (Annual year end)	63%*
Percentage of key financial systems completed.	100% (Annual year end)	25%
Percentage of recommendations agreed.	100%	95%
Percentage of recommendations implemented.	100%	100%
Timescales		
a) Draft report issued within 10 working days of completing audit.	■ 100%	■ 94%
b) Final report issued within 5 working days of closure meeting / receipt of management responses.	■ 100%	■ 94%
c) Draft report issued within 2 months of fieldwork commencing	■ 80%	■ 53%
Client Feedback on Audit (average)	Good to excellent	Good

*Indicator based on the number of days spent against the total number of days within the revised plan (53% of jobs have been completed).

12 Good progress is being made with the remaining audits all being scheduled in. We are pleased that the recommendations made in reports issued this financial year are being implemented on time or revised dates provided.

Appendix 1 - Assurance Definitions¹

<p>Effective</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>As a guide there are a few low risk / priority actions arising from the review.</p>
<p>Some improvement needed</p>	<p>Our critical review or assessment on the activity gives us a reasonable 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. A few specific control or risk issues identified.</p> <p>As a guide there are low to medium risk / priority actions arising from the review.</p>
<p>Major improvement needed</p>	<p>Our critical review or assessment on the activity identified numerous concerns 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>As a guide there are numerous medium and a few high risk / priority actions arising from the review.</p> <p>Our work did not identify system failures that could result in any of the following:</p> <ul style="list-style-type: none"> - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
<p>Inadequate</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>Our work identified system failures that could result in any of the following:</p> <ul style="list-style-type: none"> - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements <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> <p>As a guide there are a large number of high risks / priority actions arising from the review.</p>

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

Appendix 2 - Outstanding recommendations as at January 2015

Audit Area	Date	Assurance	No.of Agreed Recs	Implemented /Closed	Revised Implementation Date Agreed	Outstanding*		Not Due
						H	M	
Deputy Chief Executive								
Corporate Governance	Jun'14	Substantial	3	1	1	0	0	1
Community								
Street Cleansing	Oct'13	Substantial	6	5	0	0	1	0
Customers								
Social Media	Jul'14	Limited	7	5	2	0	0	0
Corporate Complaints	Jun'14	Substantial	2	0	2	0	0	0
Growth								
Building Control	Jan'13	Substantial	4	2	1	0	1	0
ICT								
PCIDSS	Nov'12	No	7	6	1	0	0	0
IT Security	Feb'13	Substantial	11	10	0	0	0	1
ICT Partnerships/Projects	Sept'14	Some Improvement Needed	6	1	0	0	0	5
Resources								
Counter Fraud	May'13	Limited	7	6	0	0	0	1
NNDR	Nov'13	Substantial	2	1	0	0	0	1
Payroll	Apr'14	Substantial	2	1	0	0	0	1
Treasury Management	Jul'14	Some Improvement Needed	4	2	0	0	0	2
Members Allowances	Oct'14	Effective	2	1	0	0	0	1
General Ledger	Dec'15	Effective	2	0	0	0	0	2
Safety								
None								
Strategic and Emerging Risks								
Emerging Risks	Feb'14	Substantial	4	3	1	0	0	0
Key Projects								
None								
Total			69	44	8	0	2	15

Appendix 3 - Internal Audit Plan & Schedule 2014/15 – January 2015

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Critical Service Activities	149					
Deputy Chief Executive						
Development Control	10	Customer responsiveness	Revised - October 2014	Jan 2015		Client brief agreed – Dec and fieldwork commenced
Director Safety						
Housing – Strategy	12	Strategy- Project delivery / monitoring plus supporting people changes	Revised - August 2014	August 2014	05/01/15	Some Improvement Needed
Housing – Monitoring	8	Monitoring Newark and Sherwood Homes Housing Revenue Account - Self financing business plan – monitoring and review arrangements	February 2015			
Community Safety	2	Case management and partnership arrangements including ASB.	N/A	N/A	N/A	Audit cancelled by client due to commissioning review.
Hawtonville Neighbourhood Study	5	New audit added by client.	Revised - August 2014	August 2014	05/01/15	Some Improvement Needed.
Safeguarding	10	Compliance / best practice arrangements	August 2014	October 2014		Draft report issued for comments.

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Industrial Units	15	VFM review Management, management of debts, appropriateness of rent setting, structure of tenancy agreements, overall management costs, apportionment of management costs, VFM, benchmarking, call-out issues.	September 2014	October 2014		Fieldwork completed and report being drafted.
CCTV	10	Contractors, security/data protection	March 2014			
New build affordable homes /empty homes back into use	10	We will review arrangements for affordable housing and empty homes linked to the Council's objectives.	2013/14	04/11/13	08/04/14	Limited
<u>Director Customers</u>						
Data Protection	10	A more specific assessment on data protection building on the information governance work in 13-14	Revised - Nov	14/11/14		Draft report drafted.
Use of Social Media	8		2013/14	08/01/14	14/07/14	Limited
Corporate Complaints	7	To provide assurance on the corporate complaints system including liaison with the Ombudsman.	2013/14	11/03/14	05/06/14	Substantial

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
<u>Director Communities</u> Community Groups	15	VFM outcomes / cost-benefit analysis for grants given and other community assets being used.	August 2014	August 2014		Report being finalised with Business Manager.
Car Parks and Markets	17	Review of off-street car park income, car boot, lorry park and residents parking.	2013/14	08/01/14	05/06/14	Limited
<u>Director Resources</u> Environmental Changes	10		2012/13	June 2012	N/A	Audit removed at final report stage.
<u>Due Diligence</u>	171					
<u>Deputy Chief Executive</u> Corporate Governance	12	To provide assurance on the Council's Governance arrangements against revised guidance. This work will complement and build on the assurance work undertaken in 2012/13.	2013/14	-	24/06/14	Substantial
<u>Director Safety</u> Health and Safety	10	Focus on management arrangements for a specific health and safety risk area (s)	Quarter 4	05/01/15		Fieldwork underway.
<u>Director of Resources</u> Pensions	6	Auto-enrolment compliance.	May 2014	May 2014	October 2014	Effective

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		Assurance on meeting statutory requirements, picking up correct people at correct time, financial implications being captured, assessed and provided for.				
General Contract Management	10	Effectiveness of Contract Management arrangements (framework) including escalation arrangements where performance issues arise or significant risks identified.	Quarter 4	January 2015		Client brief drafted and meeting arranged.
New Homes Bonus	10	Independent check of New Homes Bonus achieved from Capacity Grid work	Revised - August 2014	August 2014	Audit completed October 2014	Completed
Members Expenses/Allowances	7	Compliance Audit	May 2014	May 2014	October 2014	Effective
Revenue and Benefits	10	Key control compliance testing	March 2015			
Financial Systems	20	Delivery of cyclical programme and key controls to enable Head of Audit opinion on the Council's financial control environment.	March 2015			
Financial Systems – Ledger	10	Review of controls within the ledger.	July 2014	17/07/14	12/12/14	Effective
Insurance	10	Management arrangements	Revised –			Not started. Audit

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
			January 2015			rescheduled due to a change of auditor.
Palace Theatre	7	Financial Systems Audit	January 2015	January 2015		Fieldwork underway.
Leisure Centres	10	Financial Systems Audit	Revised – January 2015			Scoping
Mansfield Crematorium	5	We will undertake our annual review of accounts.	April 2014	April 2014	May 2014	Completed
Gilstrap Accounts	1	We will undertake our annual review of accounts.	September 2014	July 2014	August 2014	Completed
Cattle Market	6	Mandatory annual audit of rental fee.	June 2014			Awaiting client agreement to commence.
Benefits	18	To provide assurance on key risk and controls and test transactions. This includes follow up of subsidy testing issues and those within our 2012/13 audit report.	2013/14	04/02/14	30/06/14	Substantial
Benefits – Welfare Reform	7		2013/14	-	09/06/14	Substantial
Treasury Management	10		2013/14	24/03/14	24/07/14	Some Improvement Needed
Missing Receipt Book	2	Brief investigation of events and notification of improvements in controls.	Unplanned	22/12/14	N/A	Points fed back.

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Key Projects	52					
New Leisure Centre	15	We will undertake an independent review of the new leisure centre project to ensure compliance and effectiveness of delivery.	Revised January 2015			
Print project and hybrid mail	10	Achievement of savings and VFM, quality measures	December 2014	December 2014		Fieldwork well progressed.
Project management Framework	12	To review the project management framework and compliance.	2013/14	June 2014		Report issued to CMT.
Civil War Centre	15	We will undertake a review of the Civil War centre project to ensure compliance and effectiveness of delivery.	2013/14	March 2014	October 2014	Effective
Strategic and Emerging Risks	20					
Partnership working	10	Shared Service Arrangements – Governance Arrangements / Transformation Partnership Arrangements	Revised – January 2015	January 2015		Workshop arranged for 16/01 to inform scope.
Emerging Risks	10	To audit progress towards implementation of Transparency.	Quarter 4			

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Other relevant Areas	171					
Combined Assurance	20	Updating assurances on the Council's assurance map with service managers and helping to co-ordinating the annual status report.	November 2014	November 2014		Report being drafted by CMT.
ICT Audit	30	<ul style="list-style-type: none"> o Review of key ICT applications to assess control arrangements. o We will examine one or more ICT Security areas. o New systems / upgrades / data migration 	Revised Jan-Mar 2015			Rescheduled due to availability of IT auditors and completion of 2013/14 audits.
ICT Audit - Cash Receipting	10	Review of key ICT applications to assess control arrangements.	2013/14	23/01/14	14/07/14	Limited
ICT Audit - Partnerships/Project	12	To provide assurance on the arrangements for corporate IT projects.	2013/14	-	30/09/14	Some Improvement Needed
ICT – Infrastructure	10	Building on the infrastructure audit in 2012/13 we will examine one or more areas in more detail e.g. back-up, disaster recovery	2013/14	-		Ongoing fieldwork.
Corporate Counter Fraud	10	To focus on one or more areas of the Council's fraud risk assessment and assess mitigation arrangements.	September 2014	October 2014		Draft report drafted.
Newark and Sherwood Homes	55	Internal Audit Plan 2014/15	Various	Various	N/A	Various

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Southwell Leisure Centre	17	Review of Governance arrangements.	2013/14	01/10/13	11/06/14	Substantial
Follow-up of previous audit reports	7		Ongoing	N/A	N/A	N/A
Non-Audit	62					
Advice & Liaison	10		Ongoing	N/A	N/A	N/A
Annual Report	3		Ongoing	April 2014	N/A	Completed
Audit Committee	10		Ongoing	N/A	N/A	N/A
Review IA Strategy and planning	2		Ongoing	N/A	N/A	N/A
Contingency	37					
Grand Total - revised plan*	625					

*The revised plan includes the 450 days within the 2014/15 plan and 175 days for those audits carried forward from 2013/14.

COMBINED ASSURANCE REPORT

REPORT PRESENTED BY: DIRECTOR - RESOURCES

1.0 Purpose of Report

1.1 To receive and comment upon the Combined Assurance Report which covers the period up to the end of January 2015.

2.0 Background Information

2.1 The Combined Assurance Report has been produced by Internal Audit working with Business Managers and the Corporate Management Team. It demonstrates the level of assurance the Council has in its activities at a set point in time, and identifies any gaps. This is then used to inform the annual Internal Audit Plan for the next financial year. The report is attached at Appendix A.

3.0 RECOMMENDATION that:-

(a) **the Audit & Accounts Committee consider and comment upon the report**

Background Papers

Nil.

For further information please contact David Dickinson, Director of Resources on Ext 5300.

David Dickinson
Director - Resources

Combined Assurance

Status Report

Newark and Sherwood District



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<i>Strategic Risks</i>	14
<i>Projects</i>	15
<i>Looking Ahead</i>	16

Contact David Dickinson, Director of Resources
Details: David.Dickinson@nsdc.info

Introduction

This is the third combined assurance report for the Council.

Working with management we have been able to show what assurances the Council currently has on the areas of the business that matter most – highlighting where there may be potential assurance ‘unknowns or gaps’.

We gathered and analysed assurance information in a control environment that:

- takes what we have been told on trust, and
- encourages accountability with those responsible for managing the service.

Our aim is to give Senior Management and the Audit and Accounts Committee an insight on assurances across all critical activities and key risks, making recommendations where we believe assurance needs to be stronger.

Scope

We gathered information on our:

- **critical systems** – those areas identified by senior management as having a significant impact on the successful delivery of our priorities or whose failure could result in significant damage to our reputation, financial loss or impact on people.
- **due diligence activities** – those that support the running of the Council and ensure compliance with policies.
- **key risks** – found on our strategic risk register or associated with major new business strategy / change.
- **key projects** – supporting corporate priorities / activities.

Methodology

We have developed a combined assurance model which shows assurances across the entire Council, not just those from Internal Audit. We leverage assurance information from your ‘business as usual’ operations. Using the ‘3 lines of assurance’ concept:



Our approach includes a critical review or assessment on the level of confidence the Council can have on its service delivery arrangements, management of risks, operation of controls and performance.

We did this by:

- Speaking to senior and operational managers who have the day to day responsibility for managing and controlling their service activities.
- Working with corporate functions and using other third party inspections to provide information on performance, successful delivery and organisational learning.
- Using the outcome of Internal Audit work to provide independent insight and assurance opinions.
- We used a Red (low), Amber (medium) and Green (high) rating to help us assess the level of assurance confidence in place.
- The overall assurance opinion is based on the assessment and judgement of senior management. Internal audit has helped co-ordinate these and provided some challenge **but** as accountability rests with the Senior Manager we used their overall assurance opinion.

Key Messages



This combined assurance report sets out the position as at December 2014. The report covers each directorate together with strategic issues and risks. It complements the Annual Governance Statement which is reported to the Audit and Accounts Committee in September of each year.

The overall assurance status remains positive with over 80% of services classified as having “green” status and no services assessed as “red”. All critical activities are included and these are generally subject to audit each year.

The Council currently has a number of major projects being progressed and these are also covered in this report and there is a section on key risks.

Overall, I am satisfied that the report provides a good level of assurance to the Council and highlights the key areas for the future.

Figure 1 – 2014/15

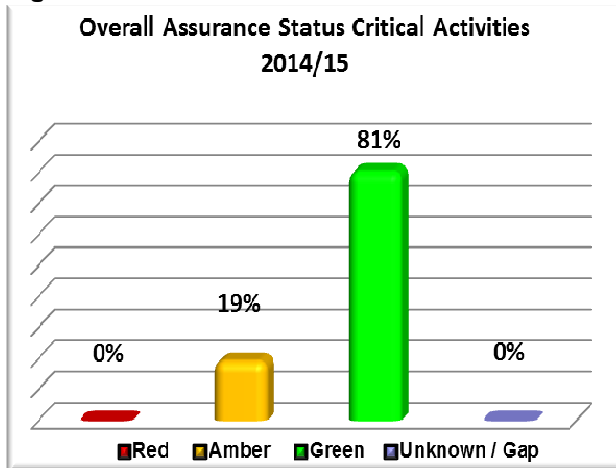
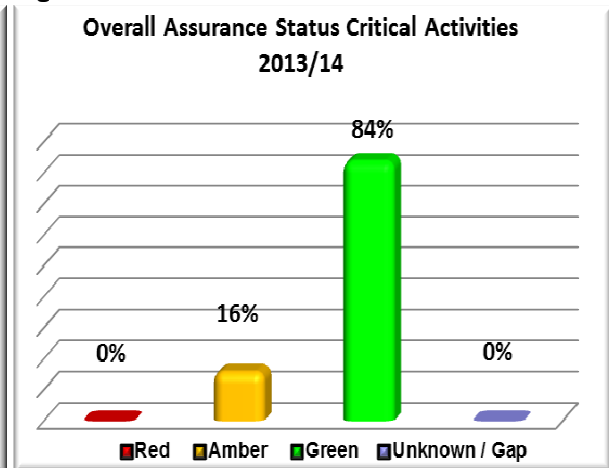


Figure 2 – 2013/14



Critical Systems



Each Business Manager has provided an assessment of the assurance for each key service and this has been moderated by the Management Team. Where available, the audit opinion has been factored in. Where appropriate, the assessment has been validated by performance data.

Figure 2- Your Assurance Map

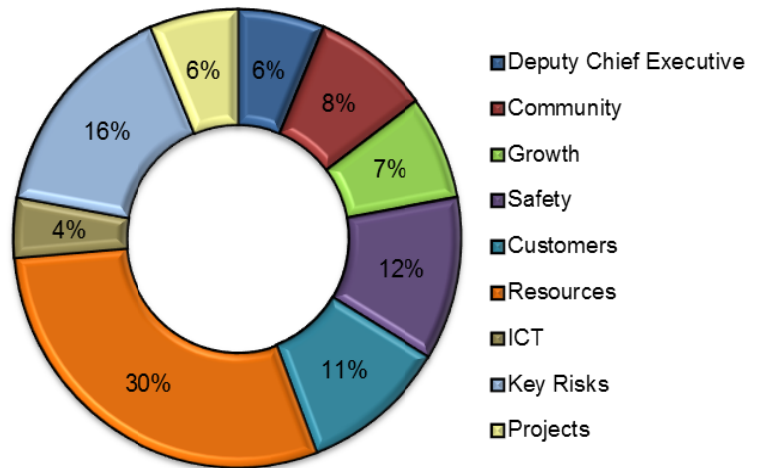
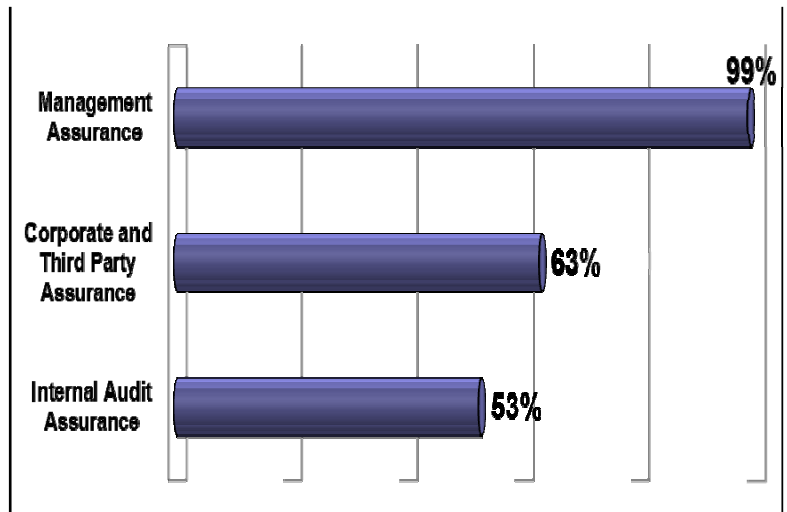


Figure 3- Who Provides Assurance on your Critical Activities

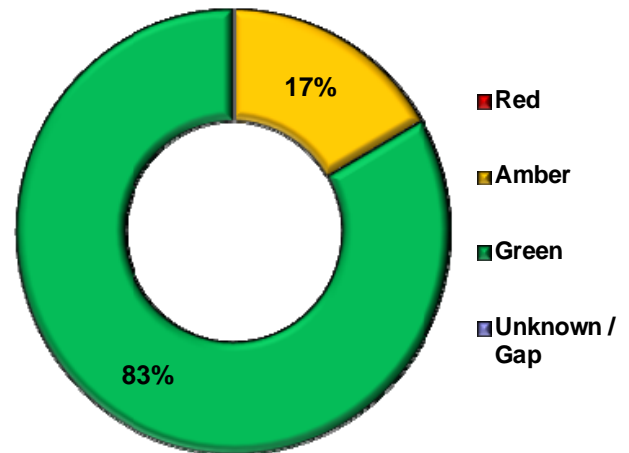


Deputy Chief Executive

Figure 4 - Deputy Chief Executive

Collaboration and Partnership

The Council has entered into a memorandum of understanding regarding greater collaboration arrangements between Rushcliffe Borough Council, Gedling Borough Council and Newark & Sherwood District Council. Whilst, the collaboration agreement is still in its early stages some progress has been made in moving towards shared service arrangements for environmental health and planning administration. However the arrangements principally relate to building resilience across the three authorities with each authority retaining its separate identity rather than moving towards a formal merger at this stage.



In respect of partnerships between the Council and other stakeholders the key partnerships have been identified as the Newark and Sherwood Local Strategic Partnership (which reports to the Policy and Finance Committee) and Newark and Sherwood and Bassetlaw Community Safety Partnership (which reports to the Homes and Communities Committee). Whilst an overview of partnerships rests with the Deputy Chief Executive the day to day running and reporting on these two key partnerships rests with the Director of Safety. Newark and Sherwood Homes has also been identified as a key partnership. Its governance framework has recently been reviewed in order to ensure that it is fit for purpose going forward, and, reflects the Council's aspiration to develop a closer relationship with its wholly owned housing company. This falls within the remit of the Director of Safety.

It is suggested that generally partnerships be listed as amber as there remains further work to be undertaken particularly in moving forward with the collaboration agreement. However, the Deputy Chief Executive is comfortable that this level of assurance is appropriate for this work given that it is in its early stages.

Governance (Democracy and Ethics)

The committee style of governance adopted by the Council at its annual meeting on 14 May 2013 has now been operational for over 2 years and is working effectively. The Councillors Commission, a working group of leading members, continues to review the constitution on an ongoing basis and to recommend to council that changes be made where appropriate.

Smart Focus

This programme has ended and residual projects within the programme have been integrated within the "Future Focus" framework.

Commissioning

The approved projects for 2014/15 are progressing towards completion and following the completion of

Growth

Figure 5- Growth

Economic Development

A new corporate strategy and staff structure have been approved and good progress has been made on a range of key projects. Tourism is performing well with the relocation of T.I.C Teams now successfully achieved.

Building Control

Applications for Building Regulation approval continue to be buoyant. Staffing within the team is very stretched and we are struggling to recruit new staff but are maintaining good service levels by utilising resources from neighbouring authorities and agencies. We are awaiting the outcome of proposals to join a neighbouring Building Control Partnership.

Planning Policy

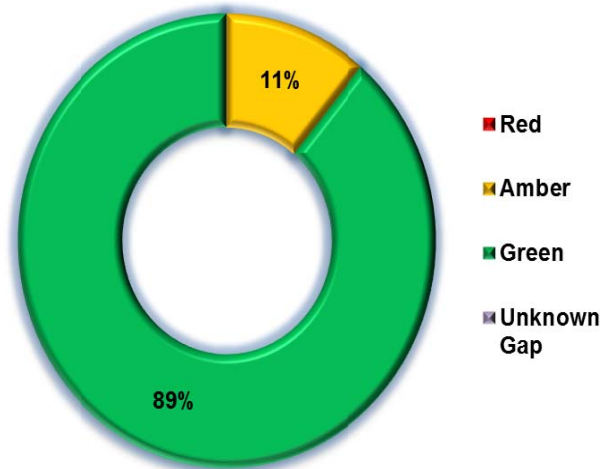
There is a robust and effective system in place for dealing with the planning application process. Issues around CIL governance need to be addressed and an appropriate mechanism to deal with this will be put in place.

There are currently no assurance issues with Planning Policy.

Housing

Overall I am comfortable with the level of assurance covering the areas of business for which I have responsibility. Particular progress has been made over the last year in developing and implementing robust strategies and plans for the Council around areas such as: housing growth and the HRA self-financing business plan.

In terms of the Housing Growth Strategy, the district wide housing needs assessment study has now been completed and the findings from this will inform the Strategy, as well as other related Council strategies and policies relating to economic development and planning. Proposals for specific housing developments across the district are starting to be worked up in accordance with the growth strategy.



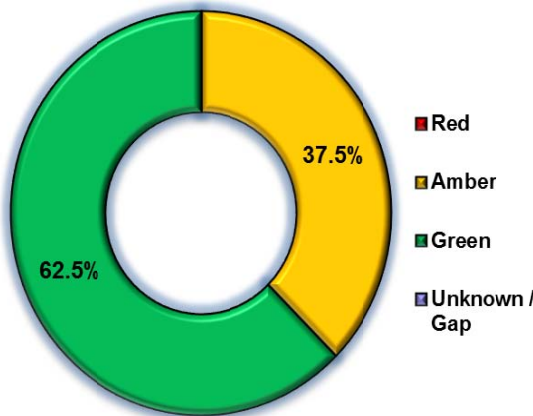
The new management agreement with the Council's Housing Company has now been in place for a year and the enhanced monitoring arrangements are working more effectively than previously in enabling the Council to achieve more strategic control over the Company and align its objectives more closely with those of the Council. There is more to do in this regard, but the mechanisms within the Management Agreement providing for closer engagement at both officer and Member level and a more transparent calculation of the management fee are facilitating all of this.

The area where management identified overall assurance status as Amber on the assurance map is:

- Land Charges

The service is working well and generating income but it may transfer over to Land Registry so there is some uncertainty and possible loss of income. Put forward to be a pilot and work with the Land registry by providing them with data and attending meetings.

Figure 6- Community



Community

Refuse collection, Recycling and the associated transport and fleet maintenance services that support them continue to be well managed and performing well. Key partnerships are in place with neighbouring authorities for the collection of garden waste and we have our own garden waste scheme which is expanding and providing a new and sustainable income stream. Street Cleansing: due to changes in legislation the team can no longer deal with asbestos. Training has been provided for staff who come across asbestos as part of their daily duties but collection and disposal has now to be carried out by specialist contractors. The main challenge to the team however is due to the fact that overtime and use of agency staff has been significantly reduced thereby requiring cleansing staff to be utilised on waste collection rounds when staff numbers are low. This does impact on service quality.

Car Parks and Markets both continue to be managed and perform well. Car Par income is above budget and the lorry park is proving to be highly successful and profitable. Both car parks and markets are subject to possible changes depending upon the outcome of devolution proposals with Newark Town Council and to a lesser extent

the new council offices if not carefully planned.

The current Parks and Amenities service is working well but is directly affected by a range of devolution proposals the outcome of which are as yet unknown hence the uncertainty reflected in the managers comments. It is likely that the current standards and performance achieved by the team will be maintained in the short term as devolution proposals include the team continuing to provide the service to local councils for a prescribed period. However some standards and the appearance of some public open spaces will inevitably be affected in a detrimental way by proposed changes and cost reductions.

Sports and Community Development. - this service/team has effectively been cut in two with the sports development team being transferred over to the new leisure company being formed by the Council. One of the main challenges here being the continuation of the community sports development programmes provided by the team that are a vital component of the councils health and wellbeing delivery programme providing important services to residents and vital in supporting the work of clinical partners.

The community development side of this team is effectively left to be provided by the team manager who is currently working three days a week for a neighbouring authority. This manager is a long serving employee with a wealth of experience and contacts who is very much trusted by communities throughout the district. At present his work requirements and targets have been adjusted but this will have to be reviewed again in the near future.

Areas where management identified overall assurance status as Amber on the assurance map are:

- Street Cleansing
- Parks and Amenities
- Sports Development programmes / Healthy lifestyle

Safety

Overall I am comfortable with the level of assurance covering the areas of business within my directorate. Particular progress has been made over the last year in developing and implementing robust strategies and plans for the Council around areas such as: equalities and diversity; risk management and safeguarding.

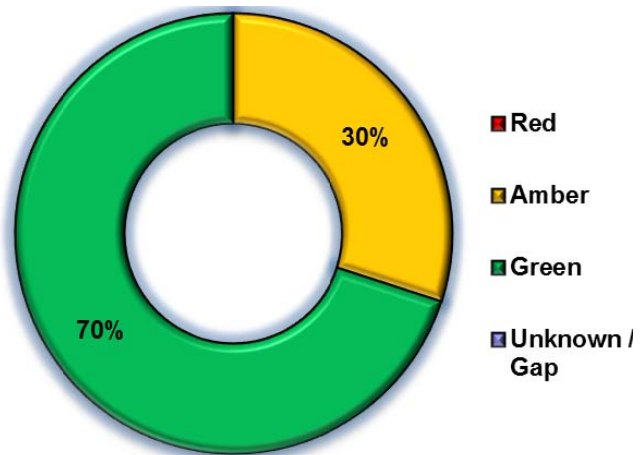
The work that has been undertaken by the Community Safety BU in the areas of emergency planning, in order to support our communities that have previously suffered severe flooding events, has been very effective and extremely well received, as demonstrated by the positive feedback received from community groups and local residents.

The partnering arrangements that are in place to deliver the CCTV service are working well and the shared service now includes Newark and Sherwood, Ashfield DC and Broxtowe BC. Currently the Council is exploring various options for a new location for the CCTV control room, once the Council vacates Kelham Hall in 2017. As part of these discussions we are looking at whether other local authority partners (and other agencies) are interested in joining the shared service, all of which will enhance the resilience of the provision of CCTV.

Whilst the work area involving business continuity is shown on the assurance map as amber, officers are in the process of reviewing the Council's Business Continuity policy and this was approved by the Homes and Communities committee at its meeting on 26 January 2015. Work is currently being undertaken with individual business managers on a one-to-one basis by the BM – Community Safety to ensure that each business unit's plans around business continuity are consistent with each other and with the overarching strategy. I am satisfied therefore that once this work has been completed this area will move from amber to green once concluded.

The area of Environmental Protection is also one that is identified for its overall assurance status as Amber on the assurance map. This is due to the fact that at the time the report was drafted, the first two quarters performance data recorded on Covalent showed the programme of inspections as being behind schedule. This was in part due to additional work and the diversion of resource necessitated by the migration of data onto a new software system. Now that staff have had more time to become familiar with the new computer system, more up to date data is showing a significant improvement in performance against target in the programmed inspections, which is now back on track.

Figure 7- Safety



Finally, it is noted that HR is the third area within this Directorate which is identified as amber for its overall assurance status. This is largely due to the outturn for sickness absence for the second quarter of the year 2014/2015 which was recorded as 3.82 days against a target of 3.13 days (shown as red on covalent). At the end of quarter 3, data on Covalent shows as 5.08 against a target of 4.69 (shown as amber on covalent). However it should also be borne in mind that these figures, although they just fall short of the stretching targets that the Council has set itself, are high performing when benchmarked with local authorities across the whole of the East Midlands. All that said, the increase in absence levels during the first six months of 2014 compared to the same period in the previous year has been analysed and action is being taken by HR managing sickness will be rolled out over the coming months. The training will ensure managers are equipped with the skills required to effectively manage attendance. The training sessions will include a section to help managers when dealing with mental health issues such as stress and stress related conditions. I am confident that these actions will ensure that we continue to improve on this area of performance. There is also mention of the Council's performance around appraisals, which is showing an actual of 83.82 completed appraisals against a target of 95%. An analysis has been undertaken to identify the reasons for the underperformance as being:

- 1) Failure of some managers to complete appraisals
- 2) Refusal / decline of some staff to participate in the appraisal process
- 3) Employee sickness absence in some areas
- 4) Managers about to carry out restructure reviews of business units

Actions have been put in place to improve the performance in this area and weekly updates will be provided to CMT providing details of outstanding reports by business managers. With these measures in place I am satisfied that appropriate actions are being

Customers

The Customers Directorate covers a broad mix of both frontline and back office services. The three council-run leisure centres in Newark, Ollerton and Blidworth, together with the Palace Theatre, Museums Service, Customer Services and Housing Options, serve a wide range of customers with very differing needs. Marketing and Communications and ICT are key functions which enable the delivery of the frontline services and, particularly in the case of communications, are a key pillar of the income generating activities of the leisure and culture offer. (ICT is shown separately)

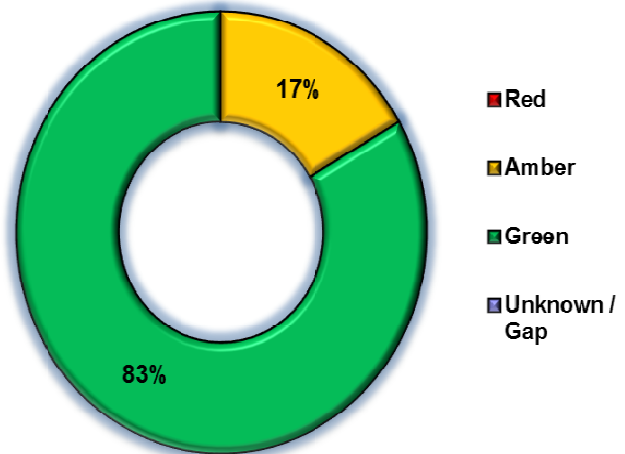
Assurance is achieved in the directorate through a mixture of process, policy and performance management. The council has its priorities set out under the headings of prosperity, people, place and public service. Business plans within the directorate are aligned with the corporate priorities and then fed into team objectives and individual objectives through the appraisal system. In this way, a golden thread is achieved in aligning the work of an individual employee with the delivery of the council's goals.

Performance management and risk is embedded through the use of Covalent, which is viewed by CMT on a regular basis and is subject to regular discussion between individual directors and business managers. Business continuity plans are seen as an essential component to business unit operations and challenge by audit on critical activities is welcomed. The customer complaints procedure is another useful tool in ensuring that services are delivering in line with their objectives, with clear processes in place for complaint recording and storage on the Customer Relationship Management system and escalation to senior management where appropriate.

Business managers are encouraged and supported to have an increased degree of autonomy and responsibility to lead their business operations, provided there is sufficient evidence that the controls of process, policy and performance management are in place.

The directorate faces new challenges over the coming year, with the opening of the National Civil War Centre and a replacement leisure centre in Newark. The NCWC will be expected to deliver against its budgeted income, which, although developed robustly, does not have the benefit of previous years' to benchmark against.

Figure 8- Customers



The leisure centre is a major capital project, which needs to be subject to strict internal controls to ensure it is delivered on time and to budget. External project and cost management support is being used to provide greater assurance in this critical activity.

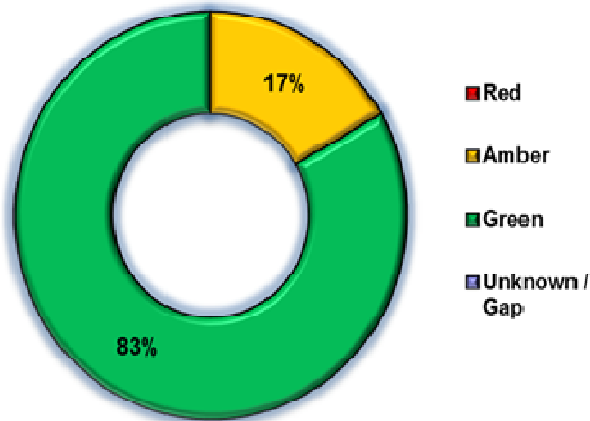
Welfare reform is one element in increasing demand in Housing Options and Customer Services and management action is being taken to monitor and manage this impact. The new office accommodation project provides scope to deliver a more fit-for-purpose customer access model, which would further help to address increased customer demand.

Ongoing assurance is required in Information Governance to ensure data is managed appropriately, particularly in the context of increasing partnership working and legislative requirements. The financial challenges the council faces are set to continue meaning that at a time when resources are set to continue reducing, capacity will need to be found or released to successfully deliver the major capital projects that are anticipated, as well as meeting increasing demand in some areas.

The issue of capacity will need to be closely monitored, but I remain comfortable with the controls we have in place to do this. As a result, I'm comfortable with the level of assurance within the directorate.

Management identified overall assurance status as Amber on the assurance map for Customer Services.

Figure 9- Resources



Resources

The key systems continue to be well managed. This is evidenced by the prompt and efficient closure of accounts and the efficient budget process.

There will need to be additional focus on a small number of areas in the next year. Benefits is a fast moving area with major national changes being implemented. It is necessary to ensure that the Council is prepared for these changes as well as to operate the day to day requirements in this complex area.

With the retirement of the officer responsible for Sundry Debtors, the collection of income has been reviewed and new systems put in place.

There have been significant developments in the operation of external mail, which are bedding in well whilst needing continued drive and focus to complete the implementation.

The amber level of assurance relates to these three areas.

Overall, there is a strong focus on the key systems and I am comfortable with the level of assurance in this area.

ICT

Figure 10- ICT

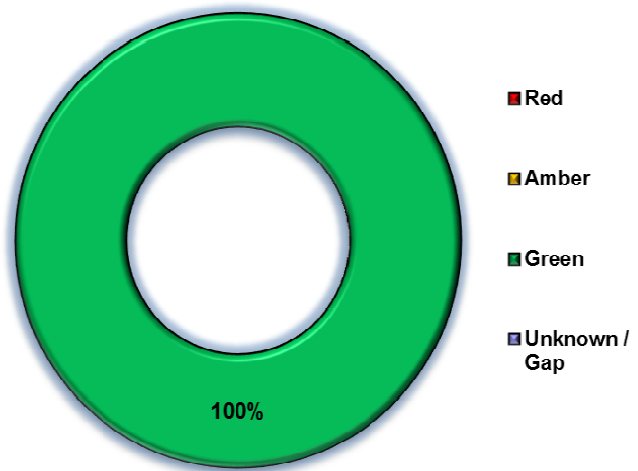
There were not considered to be any assurance issues with ICT at the time of the assessment. Areas assessed include Access Control, Security and Social Media, with audits to commence shortly on ICT Disaster Recovery, Mobile Devices and the Uniform system.

The ICT Strategy will be aligned with Broxtowe BC and Rushcliffe BC under the CIO. Contract Management and supplier engagement continue to improve with the process of regular engagement becoming more embedded.

All areas provided positive assurance by Management – Green.

Includes:

- Overall management and support
- Infrastructure and security
- ICT programmes and projects
- ICT legal compliance



Next steps.....

There are no actions where it is considered necessary to seek additional assurance at this stage. Business Managers and Directors monitor progress through the performance system on a regular basis.

Independent Assurance is sought through our Internal Audit Plan 2014/15 in the following areas:

- Development Control - Customer Responsiveness
- Safeguarding
- Industrial Units
- CCTV
- Data Protection
- Community Groups
- Partnership Working
- Health & Safety
- Housing Strategy
- Financial Systems
- Leisure Centre project
- Contract Management

The internal audit plan for 2015/16 is in the process of being considered and will be reported to the Audit and Accounts Committee.

The Annual Governance Statement will be considered after the end of the financial year and reported to the Audit and Accounts Committee along with the annual accounts in September.

Your Strategic Risks

The Council has re-assessed its strategic risks during 2014 and the current risks are shown on this page.

Each risk is assigned to a Member of the Council’s Corporate Management Team. Most risks are considered and reviewed on a quarterly basis. All risks are assessed according to their likelihood and impact, and have targets for mitigating the risk.

Risks are overseen by the Business Manager – Community Safety and are reported to the Audit and Accounts Committee annually.

R	Reduced Public Sector Funding and Major Income Streams and potential inability to meet objectives
A	Major Projects
R	Growth Delivery
A	Supply Chain Failures and contract management
A	Workforce Planning, Development / Transformational Change
G	Community Cohesion
R	Continuity of service
A	Corporate Governance
A	Data Management / Security



Projects

The Council has a number of key projects at the moment. These are:

- New leisure centre (green)
- National civil war centre (green)
- Devolution (amber)
- Collaboration (amber)
- Kelham Hall Vacation (amber)
- New Offices (amber)

Each project is at a different stage, with the National Civil War Centre opening this year, the New Leisure Centre being expected to open in 2016 and new offices in 2017.

The assurance on the projects was assessed in December 2014. By their nature these projects can develop quickly and the assurance level will continue to be assessed regularly throughout the life of each project.

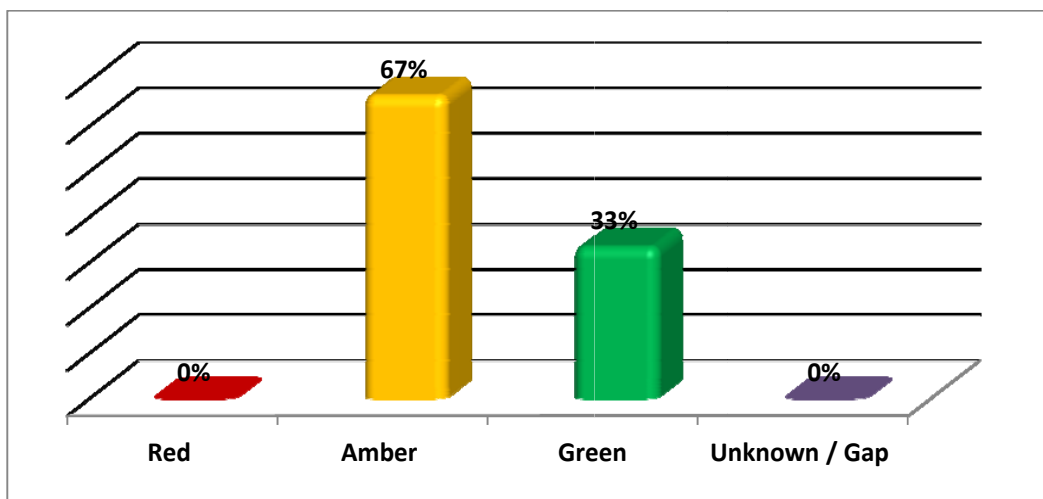
Major projects each have a project Board set up to deliver them. Project Boards include all relevant officers. Where appropriate, external professional advice is procured to support and deliver the project.

Each project has a risk assessment carried out and managed by the Project Board. Key risks are considered by the Corporate Management Team and addressed throughout the project.

In general, risks relate to timescale, finance, procurement and legal aspects of the project.

The Council is planning to set up a wholly owned company to operate its Leisure Services and it is intended that this will commence operating in June 2015.

Figure 11 – Assurance on your key projects





Looking Ahead

The Council is aware of the financial environment faced by the public sector in general and by local government in particular. This is reflected in the Council's strategic risks and reviewed on a regular basis.

The key projects set out above will be delivered in the medium term.

The Council is considering the operation of all services through a commissioning process and a programme has been agreed. This has resulted in the plan to operate all Council Leisure services through a wholly owned company.

The District Council has elections in May 2015 and the new Council will consider its objectives for the next 4 years after the election. These will then be reflected in the Council's medium term financial plan.

AUDIT AND ACCOUNTS COMMITTEE
11 FEBRUARY 2015
ANNUAL INTERNAL AUDIT PLAN AND STRATEGY
REPORT PRESENTED BY: DIRECTOR OF RESOURCES

AGENDA ITEM NO.9

1.0 Purpose of Report

1.1 The Internal Audit Plan (Appendix A) sets out the proposed work of Internal Audit for 2015/16.

2.0 Introduction

2.1 The Internal Audit plan and strategy has been developed to demonstrate how assurance can be given on:

- The critical systems of the Council
- Due diligence activities
- Strategic and emerging risks
- Key transformation programmes and projects.
- ICT Assurance.

2.2 Audit Lincolnshire have developed a combined assurance model for the Council which is a record of assurances against your critical activities and risks. It provides an overview of assurance provided across the whole Council – not just those from Internal Audit – making it possible to identify where assurances are present, their source, and where there are potential assurance ‘gaps’.

2.3 The internal audit plan has been developed with reference to our draft combined assurance model as well as previous audit work, audit risk assessment, discussions with senior management, strategic and emerging risks. The plan has been split into six month periods with the second six month plan being an indicative plan reflecting the current climate of change within Local Government.

2.4 Appendix A sets out in detail Audit Lincolnshire’s approach and what we intend to review in 2015/16. Any slight changes to the plan during the year will be agreed with the Director of Resources and subsequently notified to the Audit and Accounts Committee.

3.0 RECOMMENDATION

The Audit and Accounts Committee should approve the Internal Audit plan.

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

David Dickinson
Director of Resources

**Newark & Sherwood District
Council**

**Internal Audit Plan
2015/16**





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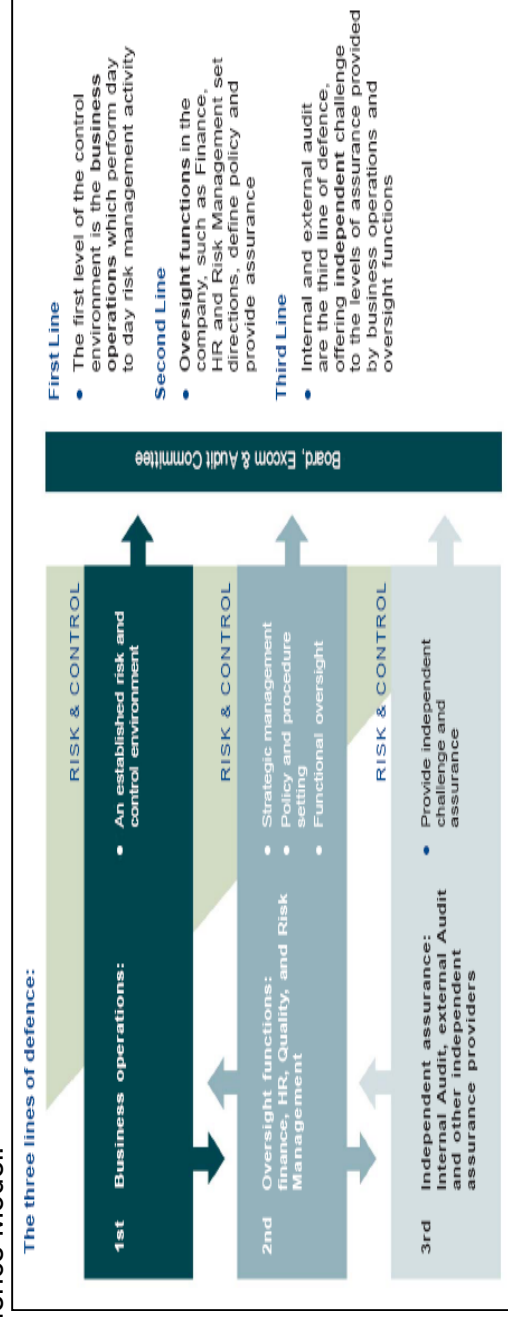
Appendices:
Appendix A – Cyclical Due Diligence Plan
Appendix B – Draft Internal Audit Plan 2015/16
Appendix C – Quality Assurance Programme

Introduction

1. This report sets out the proposed work of Internal Audit for 2015/16. The plan has been developed using information from the Council's Assurance Map – which identified assurances present and their source against your critical activities and risks.
2. Internal Audit provides independent assurance designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.
3. Our work is carried out in accordance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities - seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council, which has been established to:
 - Achieve strategic objectives
 - Ensure effective and efficient operational systems and programmes
 - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
 - Ensure the reliability and integrity of financial and operational information
 - Ensure economic, efficient and effective use of council resources
 - Ensure compliance with established policies, procedures, laws, regulations and contracts

Internal Audit Strategy – how we choose what to look at

4. Our Internal Audit strategy has been developed to demonstrate how assurance can be given on:
 - The critical systems of the Council - Those key service activities whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public, significant impact on the successful delivery of Council priorities or failure to comply with service legal requirements.
 - Due diligence activities – Key processes that support the running of the business and ensure compliance with corporate policies and legal requirements. How often Internal Audit review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management. We also consider the requirements of External Audit.
5. We have identified the level of assurances in place by using the 'Three lines of Defence Model':-
 - Emerging risks - Risks that are created by a new activity or business strategy and whose failure could result in significant damage to the Council's reputation, material financial loss, significant impact on members of the public or failure to comply with service legal requirements.
 - Key transformation programmes and projects. Those supporting delivery of a corporate objective / priority.
 - ICT Assurance. Focussed on the critical IT applications and activities that support delivery of the Councils' key functions.
 - Strategic Risks – Any risk recorded within the Strategic Risk Register



6. The combined assurance map shows us where we can co-ordinate our assurance work across the whole Council, not just those from Internal Audit. We intend to leverage assurance from these other sources to enable the Head of Internal Audit to provide their Annual Audit Opinion on the Council's governance, risk and control framework for 2016.

9. Analysing the assurance map may identify a number of specific critical and low risk activities - which we do not have the resources to review. The Audit and Accounts Committee can specifically request management to provide assurance on these areas. Once the assurance map has been agreed we will provide a further report to Audit and Accounts Committee with more details.

7. To help us triangulate the information contained in the assurance map we also undertake a risk assessment against each activity assessing their significance, sensitivity and materiality – ranking the activity as high, medium or low risk.

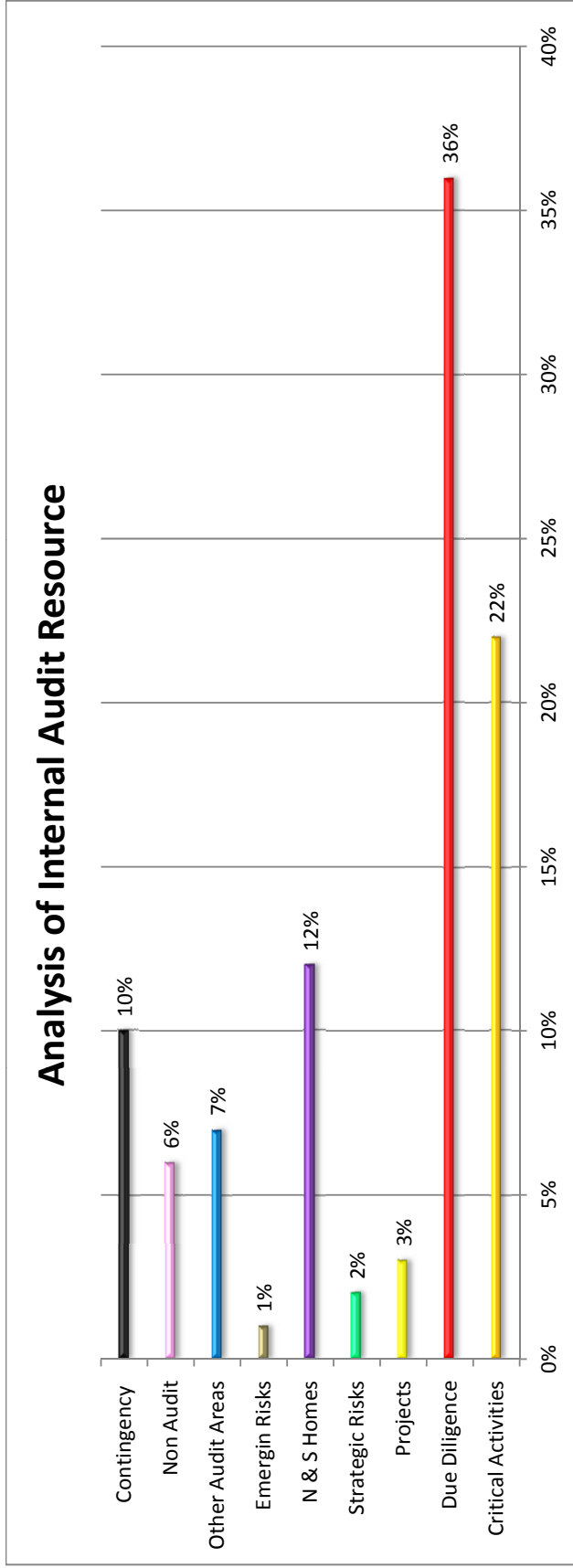
10. We co-ordinate our work on key financial systems with the Council's External Auditors, KPMG. We are working towards a joint working protocol which sets out where the External Auditor seeks to place reliance on our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit fees low.

8. We undertake a risk assessment each year to develop our risk based audit plan – there are however a number of key processes that are fundamental to the running of the Council which we review on a cyclical basis – usually once every 3 years. These systems are shown in Appendix A. This is a new 3 year cycle, however to even out coverage over the 3 years some areas may have to be audited earlier.

Draft Internal Audit Plan 2015/16

11. The type of areas included in the plan for 2015/16 is shown in figure 1 with the detailed projects in Appendix B. A schedule of audits will be developed with management once the plan has been approved.

Figure 1 – Analysis of Internal Audit Resource (showing % split)



Our Performance & Quality Assurance Framework

- 12.** Our effectiveness and performance is monitored by the Director of Resources, CMT (including Chief Executive, Section 151 and Monitoring Officers of the Council) and the Audit and Accounts Committee. Our performance measures are set out below in Figure 2 for information.
- 13.** Our Quality Assurance Framework (Appendix C) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment and the annual review of the effectiveness of the Internal Audit Function by the Council.

Performance Indicator	Target
Percentage of plan completed.	100% (revised plan)
Percentage of key financial systems completed.	100%
Percentage of recommendations agreed.*	100%
Percentage of recommendations implemented.*	100%
Timescales	<ul style="list-style-type: none"> ■ Draft report issued within 10 working days of completing audit. ■ Final report issued within 5 working days of closure meeting / receipt of management responses. ■ Period taken to complete audit – 80% completed within 2 months from fieldwork commencing to the issue of the draft report.
Client Feedback on Audit (average)	Good to excellent

* Achievement of the performance measures on recommendations agreed and implemented are not within our control. These are reported so the Audit and Accounts Committee can see what actions management have taken. The details of any recommendations not agreed will be included in the executive summary and report to Committee.

Fees

14. Our internal audit fee is determined through the pricing schedule of the contract.
15. Before commencement of any additional work requested an estimate will be provided of the cost.

Area	2015 / 16	2014 / 15
Internal Audit	£xxxxxxx	£104,125

Appendix A – Newark & Sherwood Cyclical Due Diligence Plan

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
Financial Due Diligence						
Income Collection incl Cash Receipting*	Substantial	2013/14	No			✓
Bank*	Substantial	2013/14	New contract - same provider			✓
Budgetary Control/Management	Full	2012/13	No		✓	
General Ledger/Financial Reporting	Effective	2014/15	No	✓		
Budget prep and financial strategy	Substantial	2013/14	No			✓
Creditors*	Limited	2012/13	No		✓	
Debtors*	Limited	2013/14	No		✓	
Payroll*	Ongoing	2013/14	Yes- Minor			✓
Treasury Management	Ongoing	2013/14	No			✓
Property, Plant and Equipment*	Limited	2013/14	No		✓	
Council Tax*	Substantial	2012/13	No		✓	
NNDR*	Substantial	2013/14	No			✓
Benefits*	Ongoing	2013/14	No		✓	
*Key Control Testing for Financial Control Opinion				✓	✓	✓
Financial Control / Establishment Audit						
Palace Theatre	TBC	2014/15		✓		
Parking Fees						✓

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
Markets						✓
Leisure Centres	TBC	2014/15		✓		
Other Due Diligence						
Procurement	Limited	2011/12	Legislative		✓	
VAT/Tax	Substantial	2010/11	No		✓	
Insurance	TBC	2014/15	No	✓		
Grants Received	New		No			✓
Counter Fraud	TBC	2014/15	No	✓	✓	✓
Risk management	Substantial	2013/14	No			✓
Project /Programme Management	Effective	2013/14	No			✓
Performance management	Substantial	2012/13	No		✓	
Contract management	TBC	2014/15	No	✓	✓	✓
Financial regulations & management			No		✓	
Equality & Diversity	Limited	2012/13	No		✓	
Health & Safety	TBC	2014/15	No	✓		
Information Governance	TBC	2014/15	New staff	✓		
Code of Corp Governance	TBC	2013/14	No			✓
Partnerships	TBC	2014/15	Collaboration		✓	
Corporate planning	New		No		✓	
Business Continuity/EP	BC - Advisory EP Substantial	2013/14	Finalising new process			
		2012/13				
Human Resources	Recruitment - Limited	2011/12	Legislative		✓	

Appendix B – Draft Internal Audit Plan 2015/16

Plan for first six months

Area	Indicative Scope	Planned Days
Critical Service Areas*		
- Those areas identified by senior management as having the most impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks)		
Deputy Chief Executive		
Planning Policy	Local Development Framework and other policies in place, compliance with the requirements of the Localism Act - neighbourhood planning and assets of community value.	10
Director Safety		
HRA Business Plan	Reviewed, assumptions made, linkages.	8
Director Customers		
Housing Options / Homelessness	High level review of strategies, policies and process to meet the homelessness responsibilities.	8
National Civil War Centre	Review requested of key processes in place for income, security and others following opening of centre.	8
ICT Audit	Review of the service itself looking at future planning and meeting objectives.	10
Director Communities		
Refuse and Recycling	Review of processes in place to:- o collect domestic, bulky and trade waste o collection of income o meet the targets.	10
Director of Resources		
		10

Capital Programme	Approved and monitored.	5
Sub Total		59
Due Diligence		
- Those systems that support the running of the Council and ensure compliance with key policies		
Deputy Chief Executive		
Corporate Planning	High level review of planning in place for the Council:- corporate priorities, business plans, objectives.	5
Director of Resources		
Budgetary Control	Cyclical system review.	8
Creditors	Cyclical system review.	8
Debtors	Cyclical system review.	8
VAT/Tax	Cyclical system review.	10
Financial Regulations and Management	Regulations are in place, communicated and monitored for compliance.	8
Director of Safety		
Human Resources	Overview of service.	10
Equality and Diversity	Review of progress and benchmarking against the Public Sector duty. Requested by management.	10
Sub Total		20
Key Projects		
Council Offices – Vacation and New Build	Key, two year project. Advisory / gateway review – first gateway review.	8
Sub Total		8
Strategic and Emerging Risks		
Strategic Risks	Review of monitoring arrangements and detailed review of one or more strategic risks.	8
Sub Total		8
Other relevant Areas		
Follow-up of previous audit reports		3
Mansfield Crematorium	We will undertake our annual review of accounts.	5
Gilstrap Accounts	Annual review of accounts	1

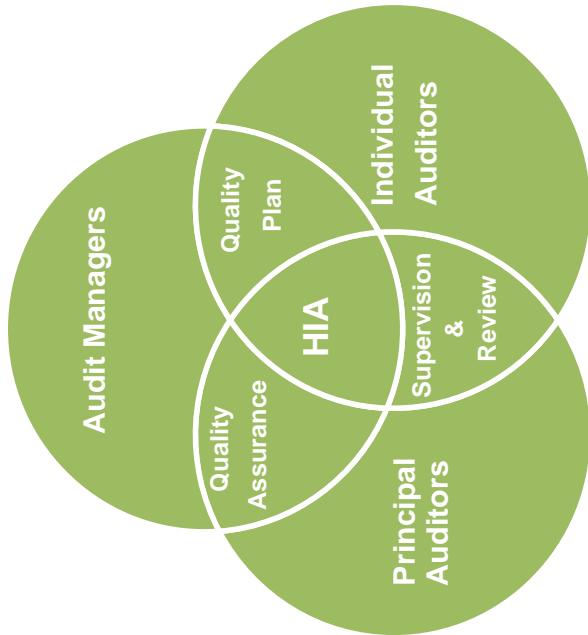
Newark and Sherwood Homes	Internal Audit Plan 2015/16	28
Sub Total		37
Non-Audit		
Advice & Liaison		5
Annual Report		3
Audit Committee		5
Sub Total		13
Contingency		
Contingency		8
Grand Total		200

Indicative Plan for second six months

Area	Indicative Scope	Planned Days
Critical Service Areas*		
-	Those areas identified by senior management as having the most impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks)	
Deputy Chief Executive		
Planning Applications	Processing and income	10
		10
Director Customers		
Customer Services	Cash receipting, security, targets.	10
ICT Audit	To be confirmed.	10
		20
Sub Total		30
Due Diligence		
-	Those systems that support the running of the Council and ensure compliance with key policies	
Director of Resources		
Key Control Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	30
Property, Plant and Equipment	Cyclical system review.	8

Council Tax	Cyclical system review.	15
Benefits	Cyclical system review.	15
Procurement	Cyclical system review.	10
Performance Management	Review of systems in place including process, Covalent and reporting.	10
Sub Total		88
Key Projects		
Council Offices – Vacation and New Build	Key, two year project. Advisory / gateway review – second gateway review.	8
Sub Total		8
Strategic and Emerging Risks		
Waste, Litter and Recycling - Risk management	Review of risks to ensure actions in place to monitor and mitigate the risks.	5
Sub Total		5
Other relevant Areas		
Combined Assurance	Updating assurances on the Council's assurance map with service managers and helping to co-ordinating the annual status report.	20
Follow-up of previous audit reports		3
Newark and Sherwood Homes	Internal Audit Plan 2015/16	27
Sub Total		50
Non-Audit		
Advice & Liaison		5
Audit Committee		5
Review IA Strategy and planning		2
Sub Total		12
Contingency		
Contingency		7
Grand Total		200

Appendix C – Quality Assurance Programme



Quality Assurance

Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

Quality Plan

Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement

Supervision & Review

Ongoing monitoring – quality built into the audit process
Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.

HIA

Annual self-assessment

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

Periodic quality assurance assessments

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

Audit Managers

Individual Auditors

Principal Auditors

- Conduct all audit engagements in accordance with audit practice standards / PSIAS

- Behave at all times in accordance with the Code of Ethics / Code of Conduct

- Promote the standards and their use throughout the Internal Audit activity

- Commitment to delivering quality services

- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards

- Undertake engagement supervision and review. The extent of supervision needed will depend on the proficiency and experience of the internal auditors and the complexity of the engagement.

EXTERNAL AUDITOR'S PROGRESS REPORT JANUARY 2015

1.0 Purpose of Report

- 1.1 To present the External Auditor's Progress report for Newark & Sherwood District Council.
- 1.2 The Progress Report provides an overview of KPMG's progress in delivering their responsibilities as the Council's external auditors.

2.0 Background Information

- 2.1 The progress report provides information on the work that KPMG has carried out in 2014/15 and work that is planned for the rest of the year covering the 2014/15 financial statements.
- 2.2 The report also provides updates on technical issues. The issues identified will only have a low impact on the Council, or are simply for noting.

3.0 RECOMMENDATION that:-

the Committee consider the External Auditor's Progress Report for January 2015.

Background Papers

External Auditor's Progress Report January 2015

For further information please contact John Cornett, Director KPMG LLP (UK) on 0116 2566064.

David Dickinson
Director - Resources



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External audit progress report and technical update

Newark and Sherwood District
Council

January 2015

This report provides the Audit and Accounts Committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

PROGRESS REPORT			
Progress Report			3
TECHNICAL UPDATE			
CIPFA and HFMA guidance on the Better Care Fund and S.75 budgets	● L	5	● Info
Transfer of Audit Commission responsibilities from 1 April 2015	● L	6	● Info
Audit Commission consultation on supplementary fee for the 2014/15 accounts – work on business rates	● L	7	● Info
The Audit Commission has updated the guidance for auditors on the conclusion on arrangements to secure value for money (VFM) for 2014/15 local VFM work.	● Info	8	● Info
The Audit Commission publish the Protecting the Public Purse 2014 (PPP 2014) report.	● Info	9	
APPENDIX			
Appendix 1 – 2014/15 audit deliverables			15



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Progress report

This document provides the Audit and Accounts Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report.

2013/14 Audit

The 2013/14 audit is now complete and the opinion and certificate were issued in September 2014. We reflected the findings of our audit work in the ISA260 report and the Annual Audit Letter which we presented to the September and November meetings of this Committee respectively.

The grant certification work which involved the certification of two claims is also complete and the results are as follows:

- the Pooling of Capital Receipts return (CFB06) was subject to amendment due to the omission of a buy back.
- the Housing Benefits claim (BEN01) was qualified and amended for errors found during the audit, as in previous years. The certification work was also delayed due to issues with the Authority's completion of the testing and the nature of the errors found.

Further work beyond that covered by the scale fee was required to certify the claims and this will be subject to a extra fee. The report covering the grant certification work will be presented to the next meeting of this committee.

The planning process for the 2014/15 audit is currently underway and we will present our detailed Audit Plan to the next meeting of this Committee.

Our interim audit work at the Council is planned for March 2015. This work will involve testing of significant financial systems and assessment of the financial control environment. Where we identify significant risks or do not gain the planned level of assurance from our work, we will report to management and those charged with governance.

Our financial statements audit is scheduled for July 2015. We will assess the Authority's closedown arrangements, plan and perform substantive audit procedures and review the Annual Governance Statement. We will conclude on critical accounting matters and identify and report audit adjustments.

Our VFM conclusion work runs throughout the year and involves assessing potential VFM risks and identifying the residual audit risks for our VFM conclusion. We also consider the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Our work over the next quarter will include:

- agreement of the approach and timing of the interim and final accounts audits including the Prepared by Client (PBC) list and identification of significant matters for early consideration (e.g. accounting policies, accounting estimates)
- VFM conclusion work – review of financial performance and position and update on developments with the efficiency savings agenda.

2014/15 Audit



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Technical update

Area	Level of Impact	Comments	KPMG perspective
<p>CIPFA and HFMA guidance on the Better Care Fund and S.75 budgets</p>	<p>● Low</p>	<p>The Healthcare Financial Management Association (HFMA), in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA), has released for finance professionals as part of plans to implement the Better Care Fund.</p> <p>The guidance looks at:</p> <ul style="list-style-type: none"> ■ the legislation and regulations that underpin the operation of a pooled budget; ■ the finance, governance and operational arrangements that Clinical Commissioning Groups and local authorities need to be discussing and putting in place now in order to be ready for 'go live' on 1 April 2015; and ■ the accounting standards that will apply and need to be considered in advance of preparing the signed agreement that will underpin the pooled budget. <p>Whilst the guidance has been prepared by the HFMA and is primarily targeted at NHS bodies, it also covers local authorities and so may be of interest of local government bodies.</p> <p>For further information see the HFMA guidance at http://www.hfma.org.uk/NR/rdonlyres/7BF426D9-4CDE-4D4A-B6F9-16CDD17E5F9D/0/BCFguidance.pdf</p>	<p><i>The Committee should note the guidance.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Transfer of Audit Commission responsibilities from 1 April 2015</p>	<p>● Low</p>	<p>The work that auditors will carry out on 2015/16 accounts will be completed under the new Code of Audit Practice that the National Audit Office (NAO) is developing. Under the Local Audit and Accountability Act 2014 the Audit Commission's responsibility to prepare and publish a Code transfers to the NAO.</p> <p>From 1 April 2015, Public Sector Audit Appointments (PSAA), set up by the Local Government Association as an independent company, will oversee the Audit Commission's audit contracts until they end in 2017, or 2020 if extended by DCLG. PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for housing benefit subsidy certification and for publishing the Commission's value for money profiles tool will also transfer to PSAA.</p> <p>The Commission's other functions will also transfer to new organisations, with local value for money studies as well as responsibility for the Code of Audit Practice transferring to the National Audit Office, the National Fraud Initiative to the Cabinet Office, and the counter-fraud functions to Chartered Institute of Public Finance and Accounting (CIPFA).</p> <p>The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission's functions and where to find details on specific questions.</p>	<p><i>The Committee may wish to enquire of officers whether they have received any such communications from the Audit Commission and the details of any response.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Audit commission consultation on supplementary fee for the 2014/15 accounts – work on business rates</p>	<p>● Low</p>	<p>The Audit Commission is also consulting on a supplementary fee for the audit of the accounts for 2014/15 for London borough councils. The consultation closed on Friday 7 November 2014.</p> <p>Auditors are no longer required to undertake certification work for the Department of Communities and Local Government on national non-domestic rates, following the introduction in April 2013 of new arrangements for collecting and distributing business rates. In completing their work on the financial statements of applicable councils, auditors previously placed reliance on their certification work on national non-domestic rates. In the absence of this work, auditors need to undertake additional audit procedures on material business rates balances and disclosures in the financial statements.</p> <p>The additional audit work requires a small additional fee for applicable councils, equivalent to half the average cost by council type of the relevant certification work undertaken in 2012/13. The additional fee by council type is:</p> <ul style="list-style-type: none"> ■ district councils : £900; ■ London borough councils: £2,600; ■ metropolitan borough councils: £1,470; and ■ unitary authorities: £1,070. <p>The additional fee represents a net saving to councils of half the average previous certification fees by council type. Following consultation, the additional fee will be added to the scale audit fee for 2014/15 onwards.</p>	<p><i>The Committee may wish to enquire of officers whether they responded to the consultation and the details of any response.</i></p>

Area	Level of Impact	Comments
<p>The Audit Commission has updated the guidance for auditors on the conclusion on arrangements to secure value for money (VFM) for 2014/15 local VFM work.</p>	<p>● For information</p>	<p>The Audit Commission has updated the guidance for auditors on the conclusion on arrangements to secure value for money (VFM) for 2014/15 local VFM work. The guidance supports auditors' work on arrangements to secure VFM at the following types of audited body:</p> <ul style="list-style-type: none"> ■ NHS trusts; ■ clinical commissioning groups (CCGs); ■ single-tier, county and district councils; ■ fire and rescue authorities; ■ the Greater London Authority, the London Legacy Development Corporation and Transport for London; ■ police bodies; and ■ other local government bodies. <p>The key principles underpinning the Commission's approach on the conclusion on arrangements to secure VFM continue to be that it:</p> <ul style="list-style-type: none"> ■ enables auditors to fulfil their responsibility under the Audit Commission Act 1998, relating to an audited body's arrangements to secure economy, efficiency and effectiveness; and ■ is applied proportionately to reflect the size, capacity and performance of different types of audited body and, as far as possible, consistently across all sectors of the Commission's regime. <p>The main changes in the update for 2013/14 are set out in section 1.1 of the guidance. These are:</p> <ul style="list-style-type: none"> ■ sections 1 and 2 updated to reflect changes relating to the Commission's closure in March 2015; ■ sector context and risk indicators updated for sections 3 to 6; ■ section 4 on Clinical Commissioning Groups (CCGs) updated to apply the specified reporting criteria, recognising that 2014/15 represents CCGs' second full year of operations; and ■ section 8 on reporting updated to emphasise further the type of conclusions that can be issued at different bodies, and when these may or may not be appropriate. <p>The updated guidance is now available on the Audit Commission's website: http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/value-for-money-conclusion/</p>

Area	Level of Impact	Comments
<p>The Audit Commission publish the <i>Protecting the Public Purse 2014 (PPP 2014)</i> report.</p>	<p>● For information</p>	<p>On 23 October 2014 the Audit Commission published the <i>Protecting the Public Purse 2014 (PPP 2014)</i> report. PPP 2014 is for those responsible for governance in local government. PPP 2014 includes:</p> <ul style="list-style-type: none"> ■ the scale and value of fraud detected by local government bodies in 2013/14; ■ longer term trends in fraud detection, including tenancy fraud; ■ trends and threats in other significant fraud types; and ■ national developments impacting on local government counter-fraud. <p>In addition, PPP 2014:</p> <ul style="list-style-type: none"> ■ gives details of detected frauds and losses by region; ■ updates our checklist for those responsible for governance; and ■ highlights the second year of a programme of individual fraud briefings for councils. <p>The Audit Commission have issued fraud briefings to auditors in November 2014 for individual county councils, district councils, London boroughs, metropolitan district and unitary councils.</p>

Area	Level of Impact	Comments
<p>VFM profiles updated for the 2014/15 data sourced from DCLG</p>	<p>● For information</p>	<p>The Audit Commission VFM profiles planned budget section now contains the 2014/15 data sourced from the Department for Communities and Local Government – General Fund Revenue Account Budget (RA). The values are adjusted with gross domestic product (GDP) deflators from the HM Treasury’s publication in June 2014.</p> <p>Other sections of the VFM profiles have also been updated with the latest data values for the following data sources:</p> <ul style="list-style-type: none"> ■ Mid-year population estimates ■ Planning applications ■ Fuel poverty ■ Climate change statistics ■ Active people survey ■ NHS delayed transfers of care ■ Finance and general statistics ■ Provision for children under five years of age in England ■ Young people from low income backgrounds progressing to higher education ■ Collection rates for council tax and non-domestic rates ■ Housing benefit speed of processing ■ Housing benefit recoveries and fraud data ■ Housing benefit caseload statistics ■ Child and working tax credit statistics ■ Children in low-income families local measure ■ Special educational needs in England ■ Homelessness statistical release (P1E) ■ Fire statistics monitor ■ Fire and rescue authorities operational statistics bulletin ■ Fire and rescue service statistics <p>The VFM profiles can be seen on the Audit Commission website: http://www.audit-commission.gov.uk/information-and-analysis/</p>

Area	Level of Impact	Comments
<p>NAO published a report examining the progress to date on the implementation of the Better Care Fund (BCF)</p>	<p>● For information</p>	<p>The National Audit Office (NAO) has recently published a report examining the progress to date on the implementation of the Better Care Fund (BCF). Whilst the programme is recognised as being an innovative idea, the NAO highlights issues with the quality of early preparation and planning. It also finds that initial plans, submitted by all 151 local health and wellbeing boards in April 2014, did not generate the level of savings the Government anticipated and all plans had to be resubmitted.</p> <p>Planning for the Fund paused between April and July 2014 while the Government reviewed and revised the Fund's scope and how the £1 billion pay-for-performance part of the Fund would work. Independent assurance of the revised Fund plans found them to be stronger and better supported. Almost two-thirds of plans were either approved by Ministers or approved with support and only 5 plans were not approved. The biggest risk area identified is to the protection of social care services with 21 local areas assessed as having significant risks.</p> <p>The report can be found on the NAO website: http://www.nao.org.uk/report/planning-better-care-fund-2/</p>

Area	Level of Impact	Comments
<p>NAO have published two complementary reports examining local authority finances:</p> <ul style="list-style-type: none"> • The financial Sustainability of local authorities 2014 and; • The impact of funding reductions in local authorities 	<p>● For information</p>	<p>The National Audit Office (NAO) has recently published two complementary reports examining local authority finances: Financial sustainability of local authorities 2014 and The impact of funding reduction of local authorities. The reports include findings based on surveys of Commission appointed auditors carried out since 2001 by the Commission. The NAO were provided with anonymised analysis of the survey findings by the Commission in order to support this work.</p> <p>The NAO finds that local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. Over a quarter of single tier and county councils (those authorities responsible for social care and education) had to make unplanned reductions in service spend to deliver their 2013/14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52 per cent of single tier and county councils not being well-placed to deliver their medium-term financial plans.</p> <p>The NAO also found that there is significant variation in the way that authorities have responded to the funding reductions. Authorities that have had larger cuts in government funding have not been able to protect funding of adults' and children's social care to the same extent as those with lower cuts. The report also shows that certain sub-services have experienced very substantial cuts in spending. Spending on the Supporting People programme, housing support and advice for vulnerable people fell by 45 per cent. Between 2010/11 and 2013/14, budgeted real terms spending on services for young people fell by 34 per cent.</p> <p>The reports can be found on the NAO website</p> <ul style="list-style-type: none"> ■ Financial sustainability of local authorities 2014: http://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2014/ ■ The impact of funding reductions on local authorities: http://www.nao.org.uk/report/the-impact-funding-reductions-local-authorities/

Area	Level of Impact	Comments
Audit Commission publish: an update on Council tax and business rates collection.	<p>● For information</p>	<p>The Audit Commission has published an update to the Council tax and business rates collection VFM briefing, the last in its series of VFM data briefings analysing data in the VFM Profiles. The briefing looks at the amount of council tax and business rates councils collected and their collection rates in 2013/14 – the first year of new localised council tax support schemes and business rate retention arrangements.</p> <p>By the end of 2013/14 councils had collected £46.05 billion of the £47.26 billion due to be paid that year, leaving £1.21 billion uncollected. Council tax collection rates were 0.4 per cent lower than in 2012/13 but business rates collection rates were 0.2 per cent higher. Council tax debt from 2013/14 and previous years increased by 6 per cent. The proportion of debt from previous years that councils collected ranged from 2 per cent to 76 per cent and the proportion of debt written off ranged from 1 per cent to 32 per cent.</p> <p>Nearly four fifths of councils collected more business rates in 2013/14 than they did in 2012/13 in real terms and so were likely to benefit from the new business rates retention arrangements.</p> <p>The update can be found on the Audit Commission website: http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</p>



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Appendix

Appendix 1 – 2014/15 Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions. Our key deliverables will be delivered to a high standard and on time. We discuss and agree each report with the Council's officers prior to publication.

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicating indicative fee for the audit year	April 2014	Complete
External audit plan	Outlining our audit strategy and planned approach Identifying areas of audit focus and planned procedures	February 2015	TBC
Interim			
Interim review (report if required)	Details and resolution of control and process issues. Identifying improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	April 2015	TBC
Substantive procedures			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2015	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2015	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2015	TBC
Annual Audit Letter	Summarising the outcomes and the key issues arising from our audit work for the year.	October 2015	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarising the outcomes of certification work on your claims and returns for Government departments.	January 2016	TBC



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RESULTS OF THE ASSESSMENT OF EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

1.0 Purpose of Report

- 1.1 To inform the members of Audit & Accounts Committee of the results of the assessment of the effectiveness of the Internal Audit function including a self-assessment of the Committee.

2.0 Background Information

- 2.1 In April 2013, new Public Sector Internal Audit Standards (PSIAS) came into effect. One of the requirements of the PSIAS is that an annual review of the effectiveness of the Internal Audit function is carried out based on:
- i. an assessment of conformity to the Standards and the Local Government Advisory Note (LGAN);
 - ii. an assessment of the performance of internal audit work and whether the aims and objectives set out in the Internal Audit Strategy have been achieved;
 - iii. an assessment of progress with delivery of the annual audit plan.
- 2.2 A second requirement is that an annual self-assessment of the effectiveness of the Audit & Accounts Committee is also carried out.
- 2.3 At the meeting of the Audit & Accounts Committee held on 5th November 2014, the Committee agreed that a group should be established to undertake the review and the self-assessment. The group comprised the Chairman of the Committee - Cllr Mrs Sylvia Michael, Cllr David Staples, the Director – Resources and the Business Manager – Financial Services.
- 2.4 The group met to carry out the review and the self-assessment on 21st January 2015, and action notes from that meeting are attached at Appendix A.

3.0 Results of the Review of the Effectiveness of the Internal Audit Function

- 3.1 The review was based on a detailed self-assessment of the Internal Audit function against the PSIAS, and the LGAN which had been carried out by the Head of Internal Audit. The group considered the self-assessment and agreed that it provided a true and fair representation of the Internal Audit service, but that the responses given were statements and not evidence. Evidence to support the statements was to be requested from the Head of Internal Audit and some further queries were to be raised. Details of these are attached at Appendix B. Where evidence was provided prior to the agenda dispatch date this is attached at Appendices B(i) to B(v). An update on any outstanding responses will be given verbally at the meeting.
- 3.2 The group 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.

- 3.3 The group also confirmed that in relation to all but two of the agreed performance indicators the performance of the Internal Audit function was satisfactory.
- 3.4 The group were concerned about the performance relating to the percentage of draft reports issued within two months of fieldwork commencing. This was a new indicator established to ensure that audit work was done and reports produced in a timely manner. The group queried which reports had not been delivered within the time frame and why the delay had occurred.
- 3.5 The other area of concern related to delivery of the Annual Audit Plan, though it was noted that performance had improved compared to the previous year and that there had been a significant improvement in the quality of work done and reports produced.

4.0 Results of the Self-Assessment of the Effectiveness of the Audit & Accounts Committee

- 4.1 The self-assessment was undertaken using a questionnaire provided within CIPFA's Practical Guidance for Audit Committees. The questionnaire aims to determine whether the Audit Committee within a council meets with best practice as outlined in the guidance.
- 4.2 There were 30 questions requiring responses. For 23 of those, the group agreed that the Audit & Accounts Committee demonstrated best practice against the guidance (19 in 2013/14); for 6 questions that the Committee partially met best practice (8 in 2013/14). There were no questions where the group considered that the Committee did not meet best practice (2 in 2013/14), and one question was not applicable to the arrangements at Newark & Sherwood District Council. A table showing the results of the questionnaire is attached at Appendix C.
- 4.3 For the areas assessed as only partially meeting best practice, actions have been included in the action plan attached at Appendix A. The group recommend that the action plan is adopted by the Committee.

5.0 RECOMMENDATION(S)

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

Background Papers

Public Sector Internal Audit Standards
Local Government Advisory Note
Audit Lincs Self-Assessment against the PSIAS
Audit Lincs Quality Assurance Improvement Programme
Internal Audit Strategy
CIPFA Practical Guidance for Audit Committees

For further information please contact Nicky Lovely, Business Manager – Financial Services on Ext 5317

David Dickinson
Director - Resources

APPENDIX A
ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL AUDIT - ACTION PLAN

AREA OF REPORT

Relating to Assessment against the PSIAS

CONCERN

ACTION

Internal Audit performance in relation to the percentage of draft reports issued within two months of fieldwork commencing

Performance up to quarter 3 only 53%

Request details of which reports did not meet the required performance and why they were delayed. Monitor future performance

Assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS)

Most of the responses are statements, not evidence

Evidence to support responses to be requested from the Head of Internal Audit
 Further clarification regarding the responses to be requested from the Head of Internal Audit
 Head of Internal Audit to be asked to arrange a private meeting with the Committee Chair annually prior to the first Committee meeting after Full Council in May

Internal Audit support to the Monitoring Officer in helping to maintain an effective governance framework for the Council

Group not able to determine if this is the case

Speak to the the Monitoring Officer

Internal Audit support of the Council's Business Plan objectives and performance framework

Group not able to determine if this is the case

Consideration of the Council's Business Plan objectives. Councillors' Commission to be asked to consider if it is appropriate that performance information goes to operational Committees.
 Consideration of whether to include benchmarking information in audit reviews

Is the role and purpose of the Audit & Accounts Committee understood and accepted across the authority?

Understood by officers but not all Members

Include details of the Committee's role in the Member induction process after the election
 Managers to be reminded that the Committee can request them to attend meetings if the response to audit reports and recommendations is not satisfactory.

Are the arrangements to hold the Committee to account for its performance operating satisfactorily?

On the whole, yes, but could be improved

Consider whether the Chair of the Audit & Accounts Committee should be invited to attend Committee Chairs' meetings?

Committee's contribution to good governance

It had been agreed that the Monitoring Officer should meet with the Chair of the Audit & Accounts Committee and the Chair of the Standards Committee but this had not happened

Meeting to be arranged.

Relating to Assessment Against CIPFA's Good Practice Principles

Should the Committee consider wider areas as identified in CIPFA's Position Statement?	Not all members are aware that the Committee can be asked to investigate areas of concern. Not all of the wider areas identified have been considered	Details to be included in Member induction process after the election Councillors' Commission to be asked to consider whether other areas should be included in the Committee remit
Does the Chair of the Committee have appropriate knowledge and skills?	There has been no training for Committee Chairs on how to chair a meeting	HR to be asked to consider if training should be provided. The Head of Internal Audit to be asked to provide training for Chair of Audit & Accounts Committee
Has the Committee obtained feedback on its performance from those interacting with it or relying on it's work?	Feedback has not been obtained for 2014/15	The Monitoring Officer, the Director - Resources, Internal and External Audit to be asked for feedback

APPENDIX B

ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

Further Evidence Requested by the Group

- QA assessments of the team, any resulting Improvement Plans and evidence that performance is being tracked. (team and individual). See Appendices B(i) to B(iv)
- Annual report on the outcome of Quality Assurance work.
- The External Audit protocol. See Appendix B(v)
- What evidence is there to support that the internal audit activity:
 - promotes appropriate ethics and values within the organisation
 - ensures effective organisational performance management and accountability
 - communicates risk and control information to appropriate areas of the organisation
 - coordinates the activities of and communicates information among the board, external and internal auditors and management

In respect of the first two items the evidence is through audit reports, examples are:

Ethics and values - Equality and Diversity (2012), Counter Fraud (2014), Social Value Act (2013), Safeguarding currently with CMT.

Performance - Performance Management (2013), Code of Corporate Governance (2014), Corporate Complaints (2014), Transparency Code (2013), Members Expenses (2014). The assurance map also includes the views of the Performance team as third party assurance.

In respect of the third item, all of our audit reports communicate risk and control information relative to the area being audited within the scope of each audit.

In respect of the fourth item this is achieved through:

Audit Committee progress reports
Annual report
Occasional reports to CMT
PI's on Covalent system
Client liaison meetings (NSDC and NSH)
Head of Audit occasional meetings with Chief Executive and Directors

Further Queries Raised by the Group

- Did the Chief Executive at NSDC provide feedback to inform the Head of Internal Audit's Annual Appraisal?
- For the requirement of the LGAN relating to auditors declaring gifts, hospitality, etc. The response was "It would be in line with the Council's policy. "
 - Does this mean the Lincs CC policy or the NSDC policy?
 - Have there been any and were they investigated?
- Should the Committee have been consulted before the Leisure Centre project audit was added to the Annual Audit Plan as the request related to a query about irregularity from a Member?

- When will an update regarding the required External Assessment of the Internal Audit function be brought to Committee?
- Have there been any instances of non-conformance with the PSIAS? If not, would it be reported to the Committee?
- Have the policies and procedures that guide the internal audit activity been reviewed yet to reflect the new standards?
- For the PI relating to percentage of draft reports issued within two months of fieldwork commencing, which reports did not meet the criteria and why?

Requests from the Group

The Group request that the Head of Internal Audit arrange a private meeting with the Chair of the Committee prior to the first Committee meeting after Full Council in May

The Group request that where possible benchmarking information be included in audit reviews

The Group request that the Head of Internal Audit provide specific training to the Chair of the Committee on how to chair an Audit Committee.

The Group request that feedback on the performance of the Audit & Accounts Committee be provided at the next meeting.

Quality Assessment Report Internal Audit Team August 2014

Introduction

All members of the Audit Team were subject to a QA assessment in accordance with the agreed QA process. For each auditor a single audit from the period March to June 2014 was selected and assessed.

Results

[REDACTED]

- Acceptable but perhaps light piece of work.
- System note poor, working papers and depth of testing need to be improved. Has displayed these issues before and seems to have limited capacity to improve.

[REDACTED]

- Good piece of work.
- Comprehensive review will have ensured little evidence of any issues.
- No actions.

[REDACTED]

- Good piece of work.
- Dates not completed and timespan target exceeded. This is usual at NSDC but there is no delay log to explain why. The fact that there were 6 versions of the draft report may be contributory.
- System note poor and some minor issues with linking evidence to working papers.

[REDACTED]

- Good piece of work.
- Dates not completed and timespan target exceeded, partially/largely explained in delay log.
- No evidence that review points were actioned.

[REDACTED]

- Good piece of work.
- Timespan target slightly exceeded.

[REDACTED]

- Good piece of work
- There are only some very minor issues with working papers.
- No actions

[REDACTED]

- Good piece of work
- No actions required

[REDACTED]

- Good piece of work
- Timespan was excessive. Whilst a delay log identifies the reasons why they are nothing to do with this audit. Actions needs to be taken to ensure this does not happen in future.

[REDACTED]

- Good work, this was a simple audit
- Some minor issues with completion of summary information and dates in PAWS



- No regular audit completed during the period

The QA review of xxxxxxxxxxxx was completed by John Scott.

Summary of Main Issues and Actions

Generally the audit work is of a good standard, the main issues that have been identified in some but not all instances, are:

- Timespan target exceeded
- Dates not completed
- Linking of evidence to working papers
- Poor system notes

We are aware of the timespan issue and everyone has been mobilised to work to correct this, however this is not always the fault of the auditor and I want to ensure auditors complete delay logs.

Everyone was recently emailed a reminder on completion of dates. Individuals will be instructed on the linking of evidence and working papers. John Scott has identified the issue of the System Note and is providing a suggested 'model' system note.

The only auditor giving any concern is XXXXXXXX. The work is of an acceptable standard but not to the standard of everyone else. He has some on-going issues with working papers and evidence in particular and I will discuss these further with him. It seems a different approach might be required.

John Sketchley
Audit Manager
26 August 2014

Quality Assurance Review – 24/07/2014			
Performed by:		John Sketchley	
File Reviewed:		Use of Social Media	
Auditor		Time spent	
Principle / Supervisor		Budget Days:	Actual Days:
Was the Audit completed on time and within budget?		Key dates	
Comment / Reason for variation: Note: to be effective the audit should aim to be completed from start to draft report within 3 months.	Yes	No	Actual
	Start (client brief)		
	Fieldwork complete		28/01/14
	Draft Report		14/03/14
	Review complete		
Final Report issued			
Were performance targets achieved?		Yes	No ✓
Dates not completed – reviewer asked for this to be corrected but wasn't.			
Comment / Reason for variation:	generally has issues, but nothing recorded, no delay log. There were 6 versions of the draft report!		
Has the audit been conducted in accordance with our audit practices?:			
<ul style="list-style-type: none"> Engagement planning – client brief and audit plan Working paper standards Testing strategy / Sample Sizes Information easy to find and evaluate 	Yes ✓ Yes ✓ Yes ✓ Yes ✓	No No No No ✓	
Suggested Areas of Improvement:			
System note is poor. Reviewer has made a note about working papers and evidence and linking them effectively.			

Quality Assurance Review – 24/07/2014

Was the quality of supervision what you expected? – evidence of review and actions etc						Yes ✓	No			
Was relevant and appropriate assurance provided? <ul style="list-style-type: none"> • Based on the agreed scope • Sufficient evidence obtained to draw conclusions • Conclusions and opinion drawn would be what any prudent and informed person would conclude 						Yes ✓ ✓ ✓	No			
How well did our final report communicate the audit results to the client (1 very poor 5 excellent) – Quality of report						Score				
						1	2	3	4	5✓
How well did the audit meet customer expectations – overall feedback from Customer Satisfaction Survey						Score				
						1	2	3	4	5✓
Suggested Areas of Improvement:										
Feedback to Principle and Auditor (including agreed actions)										
Improvement:										
<ul style="list-style-type: none"> - Dates - Time from start of audit to end - System note - Linking of working papers to evidence 										
Date:										

Weekly Worksheet Week ending 16/1/15 Auditor ██████████**Audits in progress**

Audit	Supervisor	Status*	Progress made during week Reasons for delay
SHDC CSU	John Scott	Fieldwork	Start 21/1/15
NKDC Income	Rachel	Brief	Preparing Paws
NKDC NNDR	Rachel	Fieldwork	Fieldwork
NSDC Customer Responsiveness	Amanda	Fieldwork	Telephone call from Amanda 15/1/15 she has just been told one of the main staff members I need to see is seriously ill, did not start as expected on 16 th , need to assess and discuss with Amanda.
Deeping St James Community	Julie	Draft report	Completed school audit

* Scoping/Client Brief/Fieldwork/Draft Report

Audits planned to commence in the next 2 months

Audit	Supervisor	Scheduled/expected start date Dates of planned meetings etc
NKDC Income	Rachel	Late Jan - early Feb
Schools	Julie	15 days school visits to book in

Appendix B(iii) Evidence of performance tracking

MONTHLY UPDATE – 30th January 2015

Manager:	Lucy Pledge	Employee:	
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1. Performance Delivery

Targets from November 1-2-1 (No 1-2-1 in December)

Audit	Start of Fieldwork	3 Month	Target
2012/13 reports - Planned Maintenance - ICT Infrastructure			Complete Draft issued
Performance report update			Complete
Review of audit plan			Complete
Agency workers			Complete
Benchmarking			
QA			
ICT Assmap			Complete
Communication presentation			Now March 5th
Key control testing			
Training & Development for seniors			
Team and Principals meetings			Complete
Pentana vision implementation			On-going
Insurance support/queries			Ended
NSDC Project management report			Complete

Other work in the period

Strategy presentation			Complete
Police Tender PQQ			Complete
Audit Progress Report data			Complete
Barclays new card issue			Complete
Office tidy and move			Complete

Targets for next 1-2-1

Audit	Start of Fieldwork	3 Month	Target
ICT Infrastructure closure			
Benchmarking			
QA			
Communication presentation			March 5th
Team meeting			Feb 9th
Pentana vision implementation			On-going
Strategy day & follow-up actions			
Newark Audit Committee			Feb 11th
CMPP			
Revised organisational chart			Feb 3rd
Vision presentation			Feb 4th
Bus grant			ASAP

Appendix B(iii) Evidence of performance tracking

2. Qualitative Performance Measures (if appropriate) / issues to address	
<ul style="list-style-type: none"> ■ 	
3. Pastoral Care Matters (Flexi-sheets, A/L requests, work-life-balance, sickness etc)	
<ul style="list-style-type: none"> ■ A/L 19/20 Feb ■ 6 days A/L currently remaining ■ 	
4. Training & Development	
Activities completed	Activities planned / requested
<ul style="list-style-type: none"> ■ Insurance update ■ 	
5. AOB e.g. client, service, technical updates, date of next meeting	
<ul style="list-style-type: none"> ■ Next Meeting –25th February 2015 ■ 	



cutting through complexity

Internal and external audit protocol 2013/14 - DRAFT

Newark and Sherwood District Council

June 2013



Content

The contacts at KPMG in connection with this report are:

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Appendix	
1. Key control schedules	8

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section one

Introduction

Purpose and structure of this document

This document clarifies the working relationship between Audit Lincolnshire (“Internal Audit”) and the KPMG LLP audit team (“KPMG”) responsible for the audit of Newark and Sherwood District Council (“the Authority”). The document also takes into account the Authority’s arrangements for managing the outsourced Internal Audit contract. Reasons for documenting the relationship are:

- As part of the delivery of a managed audit, KPMG seek to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems; and
- To formalise areas any of co-operation and assistance that can help to reduce any unnecessary overlap of audit effort.

The remainder of this document presents:

- The principles and general arrangements that are put in place to ensure that Internal Audit and KPMG are able meet their respective responsibilities (section two).
- The specific audit arrangements and the approach for the accounts and systems work at the Authority, VFM work, grants certification and fraud requirements (section three).
- Details of KPMG’s approach to controls testing, including detailed schedules setting out the key controls for relevant systems (section four supported by appendix one).

Key contacts

For the purpose of clarity, the key contacts between Internal Audit and KPMG, and the Authority are as follows:

Internal Audit			
Lucy Pledge	Head of Internal Audit	☎: 01522 553692	✉: lucy.pledge@lincolnshire.gov.uk
John Scott	Audit Manager	☎: 01522 553688	✉: julie.castledine@lincolnshire.gov.uk
KPMG			
Mike Norman	Manager	☎: 0115 935 3554	✉: michael.norman@kpmg.co.uk
Gerry Lewis	Assistant Manager	☎: 0115 935 4486	✉: gerry.lewis@kpmg.co.uk
The Authority			
Nikki Lovely	Business Manager – Financial Services	☎: 01636 655317	✉: nicola.lovely@newark-sherwooddc.gov.uk

The way forward

This document formalises the process, as it exists now. Regular reviews of these arrangements should ensure that the protocol remains current and accurately reflects the control environment of the Authority as well as KPMG’s requirements in response to this.

Section two

General arrangements

Respective responsibilities

KPMG's responsibility as external auditors is set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises KPMG's responsibilities into two objectives, requiring KPMG to review and report on the Authority's:

- financial statements (including the Annual Governance Statement): providing an opinion on the Authority's accounts; and
- use of resources: concluding on the arrangements in place for securing economy, efficiency and effectiveness in the Authority's use of resources (the value for money conclusion).

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

From April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006. Additional guidance for local authorities is included in the Local Government Application Note on the PSIAS.

Working together

On an annual basis, and throughout the audit year, KPMG and Internal Audit will discuss the risk assessment underlying the Internal Audit Plan, to determine any areas of common interest and opportunities to reduce any unnecessary overlap of audit effort.

Where KPMG has identified the opportunity to rely on work performed by Internal Audit, KPMG will discuss this with Internal Audit, consider the findings of their report and, if necessary, review the supporting audit files.

The timescales for these reviews will be subject to agreement with Internal Audit at the time. KPMG plan to complete control evaluation work in April each year in preparation for the audit of accounts and therefore would need any elements of work on which we plan to rely to be completed by March.

Final Internal Audit reports for all areas should be sent electronically to KPMG, and specifically to Denise Campbell (denise.campbell@kpmg.co.uk) who will collate these as necessary. This will help KPMG be informed of any matters arising from Internal Audit's work and if relevant take them into account in the course of our audit planning and detailed work.

Any detailed review of the Internal Audit files would be conducted on site, with files kept either in the external audit office or the offices of Internal Audit at all times.

KPMG will share copies of their final reports with Internal Audit as a matter of course to ensure they are aware of the findings from the external audit work.

Section three

Specific arrangements

Systems of internal financial control

KPMG are required under the *Code of Audit Practice* to form an opinion as to whether the Authority's financial statements and transactions give a true and fair view of the financial position and the transactions of the Authority.

To support this opinion, it is desirable to place reliance on the Authority's core financial systems. The work of Internal Audit is important in building up an understanding of the systems and controls to achieve this.

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

The PSIAS require Internal Audit to prepare a risk-based audit plan that takes into account the Authority's risk management framework, as well as changes in the Authority's business, risks, operations, programmes, systems, and controls. KPMG therefore expect that this covers all of the Authority's key risk areas, including those related to the financial systems.

KPMG will review the outcome from Internal Audit's work on the financial systems to influence their annual assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Subject to the Authority's financial systems having been assessed as effective by Internal Audit, KPMG have defined only a small number of key systems and key controls which support the external audit work on the financial statements (Appendix 1). The scope for these encompasses both assessment of the design and implementation of controls, with walkthroughs of the system where applicable (testing of a single case to verify the documentation of systems and controls), and testing of the effective operation of the controls.

KPMG's audit strategy is continually revisited, so there may be instances where they do not specifically review and seek to rely on Internal Audit's work on the controls for specific systems in any given audit, depending on our audit strategy at the time. This document therefore sets out the systems and controls where reliance is most likely, but the extent to which KPMG will seek to place reliance on individual areas will vary.

KPMG's fee for the external audit is set on the presumption that KPMG can place reliance on the work of Internal Audit to inform their assessment of the overall control environment. If this is not the case, additional work may be required in order to support the audit opinion, which will increase the external audit fee.

Fraud and corruption

Internal Audit's responsibilities over fraud and corruption comprise two main areas:

- Proactive work to assess the quality of controls which prevent and detect fraud and corruption; and
- Investigation of specific allegations.

KPMG's responsibilities under auditing standards are limited to:

- Identifying and assessing the risks of material misstatement of the financial statements due to fraud and designing and implementing appropriate responses to the risks identified; and
- Responding appropriately to fraud or suspected fraud identified during the audit.

As part of their periodic meetings Internal Audit and KPMG will discuss any significant fraud and corruption cases reported to or investigated by Internal Audit.

Section three

Specific arrangements (cont.)

In addition, there is an Audit Commission requirement for investigating auditors to complete the Audit Commission's AF70 form for proven financial losses exceeding £10,000 and all cases of tenancy fraud.

KPMG will provide a proforma AF70 form for Internal Audit to capture the key details of these cases for onward submission to the Audit Commission. The responsible Internal Audit fraud officer for the Authority should forward completed AF70 forms for all relevant cases in the period to KPMG on a quarterly basis.

Only one submission needs to be made when there are large numbers of housing benefit and council tax benefit frauds that involve a failure to declare correct income or a failure to notify a change of circumstance.

Grant certification

The Audit Commission may, at the request of grant paying bodies, make arrangements for claims to be certified by the external auditor. To assist in this certification and help ensure national consistency, the approach auditors must take is specified in Certification Instructions produced by the Audit Commission.

The Audit Commission has set an indicative fixed fee for the certification of grant claims and returns. This fee is based on the expectation that the Authority is able to provide KPMG with complete and accurate claims and returns, with supporting working papers, within agreed timeframes, and that there is an effective control environment in place over the preparation of the claim or return. This may include work completed by Internal Audit. It further assumes that any previous arrangements for completion of specific elements of the Housing Benefit certification modules will continue. In the previous year this work was carried out by Internal Audit. KPMG expect to liaise with the Authority key contact regarding the work required for the HB certification work in 2013 and the audit days to be provided by Internal Audit.

VFM work

The *Code of Audit Practice* requires KPMG to conclude on the arrangements in place for securing economy, efficiency and effectiveness in the Authority's use of resources (the VFM conclusion).

As part of the risk based approach set out by the Audit Commission, KPMG consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so KPMG consider the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks. Assurance that a risk is managed effectively can come from a range of sources, including the work of Internal Audit.

KPMG consider that an effective Internal Audit Plan should address any key business risks where gaps in the assurance framework have been identified.

KPMG's external audit fee assumes that they are not required to complete significant detailed audit work to provide assurance against the VFM criteria. Any significant VFM risks not sufficiently mitigated by the Authority, may therefore result in additional fees.

Section four

Approach to controls testing

Systems and controls

The key financial systems and controls KPMG has specified are:

- **Financial reporting:** covering maintenance of the general ledger and central processes relating to management and year-end reporting;
- **IT control environment:** with a specific focus on the access to the network, key financial systems and data and first time implementation and ongoing maintenance of the key financial systems;
- **Cash and cash equivalents:** covering cash receipting, cash book maintenance and reconciliations of the cashbook and bank to the general ledger;
- **Property, plant and equipment:** with a specific focus on the maintenance of the asset register, updating of asset values and reconciliations with the general ledger; and
- **Pensions asset/liability:** covering the validity of data provided to the actuary in support of the IAS19 valuation with a specific focus on management's procedures to confirm its accuracy.

The key control schedules for each of these are set out in appendix one.

Sample sizes

The KPMG minimum sample sizes are set out below. Sample sizes are taken from throughout the financial year although they do not need to cover the entire financial year:

Frequency the control activity	Minimum sample size	
	If the control has a HIGH Risk of Failure	If the control has a LOW Risk of Failure
Annual	1	1
Quarterly	2	2
Monthly	3	2
Weekly	8	5
Daily	25	15
More than daily	40	25

The *Risk of Failure* is a matter of judgement. Factors to consider include:

- The nature of the control, including the complexity of it;
- Whether the control relies on performance by an individual or is automated;
- The significance of the judgments that must be made in connection with its operation;
- The competence of the individual who performs the control;
- Whether there have been any changes; and
- Whether there is a history of errors.

Sample size requirements relate to sets of controls, e.g. five of each type of exception report for a weekly payment run, not five exception reports in total. For some controls, such as reconciliations, we will test the final control for the year as part of the year-end audit.

Section four

Approach to controls testing (cont.)

Many controls are now either automated or have a significant IT component. Automated controls may include activities such as calculations, posting to accounts, system-generated reports, and edit and control routines performed within applications. KPMG are required to test these using a sample size of one, alongside a detailed walkthrough. Internal Audit, however, may consider it necessary to increase sample sizes to meet their own objectives.

Testing approach for common types of controls

The approach to testing three of the main types of controls, reconciliations, exception reports, and access controls, is set out below.

Reconciliations

- Confirm that all reconciliations that should have been produced in the year to date have been produced;
- Review system parameters for any reports used to complete the reconciliation and confirm that their design is suitable to achieve the control objectives; and
- Review the appropriate number of reconciliations (in line with sample sizes on the previous page), confirming that:
 - System balances agree to the systems that are being reconciled;
 - All significant reconciling items are explained and supported; and
 - The reconciliation casts, has been signed by preparer and reviewer and was performed in a timely fashion.

Exception reports

- Scan review exception reports produced in the year to date to verify that they have been produced with the frequency required by the Authority's financial procedures;
- Review system parameters for any reports used to confirm that their design is suitable to achieve the control objectives; and
- Review the appropriate number of exception reports (in line with sample sizes on the previous page), confirming that:
 - There is evidence, such as formal sign off, that exceptions were reviewed and, if appropriate, investigated; and
 - For any errors identified confirm that these were subsequently corrected.

Access controls

- Obtain a list of access rights to the network/ system;
- For a sample of system users, confirm that their system access:
 - has been appropriately authorised;
 - is suitable to the post held by the member of staff; and
 - complies with the Authority's financial regulations and scheme of delegation; and
- Obtain a list of leavers during the year and test a sample of leavers to ensure that access has been disabled.

Appendix one

Key control schedules

Financial reporting

System notes, walkthroughs and testing of the following key controls, or compensating controls where these are not in place:

- Budgetary control: senior management and member review of revenue income and expenditure against budget;
- Ledger mapping: annual update and review of the general ledger mapping to SERCOP headings;
- Journals: system restrictions to inputting one-sided journals;
- Journal authorisation: periodic production and independent review of journal exception reports – **or** – Independent preparation, authorisation and input of journals;
- Suspense accounts: periodic review and clearance of suspense and control accounts.; and
- Feeder system reconciliations: periodic reconciliation of the cash receipting system to the general ledger.

Access to systems and data

System notes, walkthroughs and testing of the following key controls, or compensating controls where these are not in place:

- Maintaining and publicising a comprehensive IT security policy;
- Adequate password-based access restrictions to the network;
- Adequate password-based access restrictions to the general ledger and cash receipting system;
- Regular evidenced, independent review of user access rights to these systems, including user roles to ensure segregation of duties as set out in financial procedures; and
- Regular evidenced, independent review of the appropriateness of access rights of 'super users' (ie. those with administrator system access).

System changes

System notes, walkthroughs and testing of the following key controls, or compensating controls where these are not in place:

For the general ledger and cash receipting system:

- Authorisation and documentation / review of changes to the system configuration and report parameters.

Where a new system has been implemented in year:

- Approval of the business case and go live decision for the new system;
- Evidenced and reviewed reconciliation of data transferred from old to the new system; and
- Authorisation and documentation / review of the initial system configuration and report parameters.

Appendix one

Key control schedules (cont.)

Cash and cash equivalents

System notes and walkthrough to cover the following aspects:

- Cash receipting;
- Interface between cash receipting system and general ledger;
- Identification and posting of banking transactions including miscellaneous income and expenditure amounts; and
- Reconciliation and independent review of the cashbook and bank accounts to the ledger.

Testing of the following key controls, or compensating controls where these are not in place:

- Periodic reconciliation of the cash receipting system to the general ledger;
- Posting of receipts to correct funds;
- Posting of miscellaneous income and expenditure to correct ledger codes; and
- Periodic reconciliation of the bank accounts and cash book to the general ledger and associated review by management.

Property, plant and equipment

System notes and walkthrough to cover the following aspects:

- Additions: approval of capital scheme, contract monitoring procedures, recording of capital expenditure, determining the accounting treatment, review of capital expenditure to identify potential revenue items, updating of the fixed asset register;
- Disposals: identifying surplus assets, valuation, disposal, capital receipt, accounting treatment, updating of the fixed asset register;
- Revaluations; identification of assets to be revalued, engaging valuer(s) and terms of engagement, updating of the fixed asset register;
- Impairments; identification of impaired assets, updating of the fixed asset register;
- Depreciation; calculation of depreciation charges; and
- Interface between the fixed asset register and general ledger.

Testing of the following key controls, or compensating controls where these are not in place:

- Periodic reconciliation of fixed asset register to the general ledger;
- Revaluation of assets within required period, application of correct valuation basis to assets and correct updating of the fixed asset register; and
- Annual impairment review of assets.

Pensions asset/liability

System notes and walkthrough to cover the following aspects:

- Accuracy of source data provided to the actuary.

Testing of the following key controls, or compensating controls where these are not in place:

- Agreement of data to underlying systems and reports; and
- Management procedures undertaken to establish the sufficiency, relevance and reliability of source data.



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Self-assessment of Good Practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police and this publication. Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?	✓		
2	Does the audit committee report directly to full council? (Applicable to local government only.)	✓		
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		✓	
4	Is the role and purpose of the audit committee understood and accepted across the authority?		✓	
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓		
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	■ good governance		✓	
	■ assurance framework	✓		
	■ internal audit	✓		
	■ external audit	✓		
	■ financial reporting	✓		
	■ risk management	✓		

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> ■ value for money or best value ■ counter-fraud and corruption. 		✓	
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓		
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓	
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	✓		
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓		
Membership and support				
12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ where independent members are used, that they have been appointed using an appropriate process. 	<p>✓</p> <p>✓</p> <p>✓</p> <p>N/A</p>		
13	Does the chair of the committee have appropriate knowledge and skills?	✓		
14	Are arrangements in place to support the committee with briefings and training?	✓		
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓	
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓		
17	Is adequate secretariat and administrative support to the committee provided?	✓		

Good practice questions		Yes	Partly	No
Effectiveness of the committee				
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	✓		
19	Has the committee evaluated whether and how it is adding value to the organisation?	✓		
20	Does the committee have an action plan to improve any areas of weakness?	✓		

REVIEW OF SIGNIFICANT GOVERNANCE ISSUES HIGHLIGHTED IN THE ANNUAL GOVERNANCE STATEMENT

1.0 Purpose of Report

- 1.1 To update members of the Audit & Accounts Committee on the significant governance issues identified in the Annual Governance Statement.

2.0 Background Information

- 2.1 At the meeting of the Audit & Accounts Committee on 24th June 2014, Members approved the Annual Governance Statement for the Council and requested that they be updated on the status of the significant governance identified within it later in the year.
- 2.2 An extract from the Annual Governance Statement showing the issues identified is attached at Appendix A.

3.0 Results of the Review

- 3.1 The issues identified will be considered separately with details of any further work undertaken.
- 3.2 Organisational Change – This is an ongoing issue for the Council in response to continued reductions in government funding. The Commissioning programme will review all services over time and the latest programme is to be presented to Policy & Finance Committee on 25th February 2015. Services that have already been commissioned and are in the process of implementing changes include Building Control (potential partnership arrangement with Rushcliffe BC and South Kesteven DC), Palace Theatre (possible integration with the National Civil War Centre and Tourist Information) and Leisure Management which is considered separately below. The Agile Working project commenced eighteen months ago is still active and is being driven forward alongside the project to move the Council to new accommodation.
- 3.3 Organisational Change – Devolution – Discussions are still ongoing relating to devolution of services to town and parish councils around the district. The project team are currently in the process of formulating a revised agreement relating to Newark Town Council after the original one was rejected by the Town Council at its meeting in December. It is hopeful that agreement can still be reached. Devolution of services to other parish and town councils (Ollerton, Southwell and Edwinstowe among others), should take place in April 2015.
- 3.4 Organisational Change – Management of Leisure Services – This project has made significant progress and it is hoped that the new Leisure Company will be operational from 1st June 2015. The project team has called on officers from many Business Units for advice as well as using external consultants, and it is expected that this will continue.

- 3.5 Collaboration Agreement – Regular meetings take place between the Chief Executives of the three Councils, as well as joint meetings of the three corporate management teams. Various Business Units within the Council have requested staff from Gedling or Rushcliffe, and this has resulted in savings as it is more cost effective than using agency staff. The Council has also provided staff to the other Councils where requested. There are ongoing discussions about a joint approach to procurement and environmental health, and a project looking at grounds maintenance is about to start.
- 3.6 Major Projects – The major capital projects currently underway include the National Civil War Centre which is due to open at Easter 2015. The project team is still in place and meets regularly. Consideration is being given to possible integration with other services as detailed in 3.2 above. Work has started on the new Leisure Centre, the project team is still in place and Turner-Townsend the consultants engaged to assist with the project are still advising the Council. Designs are currently being produced for the Council's new offices and contracts have been signed for the sale of Kelham Hall. Following the departure of the Business Manager – Asset Management, a consultant has been appointed to oversee significant capital projects.

4.0 RECOMMENDATION(S)

That the Committee:

- a) notes the results of the review of significant governance issues as identified in the Annual Governance Statement.

Background Papers

Annual Governance Statement for 2013/14

For further information please contact Nicky Lovely, Business Manager – Financial Services on Ext 5317

David Dickinson
Director - Resources

APPENDIX A – EXTRACT FROM ANNUAL GOVERNANCE STATEMENT

5 Significant governance issues

Issue	Action	Responsible Officer
<p>Organisational Change</p> <p>In common with all local authorities, the Council will need to continue to make significant changes to its budget to meet changing financial circumstances as a result of the national economic position.</p>	<p>The Council has a change programme led by the Chief Executive and involving all senior officers and Members. This has delivered significant savings and improvements. This is being taken forward through a Commissioning approach which has been approved by Council with all relevant officers and Members receiving appropriate training</p>	<p>A. Muter Chief Executive</p>
<p>Organisational Change – Devolution</p>	<p>The Council is planning to devolve some services to town and parish councils to enhance community involvement, ensure equitable provision to all communities and to effect savings. A project team is considering all aspects of these changes</p>	<p>A. Statham Director – Community</p>
<p>Organisational Change – Management of Leisure Services</p>	<p>The management of leisure services is to be passed to a Council owned company. A project team is taking forward the implementation with external consultancy support</p>	<p>D. Dickinson Director - Resources</p>
<p>Collaboration Agreement</p> <p>The Council has entered a collaboration agreement with Gedling Borough Council and Rushcliffe Borough Council</p>	<p>The collaboration arrangement will initially provide resilience across the three councils. There are regular meetings of the three senior management teams, and a member of CMT leads on projects relating to specific service areas</p>	<p>Corporate Management Team. A specific member of CMT is the designated lead officer for each project .^{Note 1}</p>

<p>Major Projects</p> <p>The Council has a number of major capital projects underway and planned. It is important to ensure the necessary skills and capacity is in place to deal with these projects.</p>	<p>Major projects have individual governance arrangements in place with specific project groups set up for each project.</p>	<p>Corporate Management Team.</p> <p>A specific member of CMT is the designated lead officer for each project.^{Note 2}</p>
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RISK MANAGEMENT

REPORT PRESENTED BY: Lisa Lancaster Business Manager Community Safety

1.0 Purpose of Report

1.1 To update members of the Committee of the Council Risk Management progress. This includes our corporate Risk Management policy and risk management across the council.

2.0 Risk Management Policy and Group

2.1 The NSDC Risk Management policy is currently being reviewed with the assistance of our insurers, in line with the review process. There have been some delays due to changing of staff within Zurich, but it is anticipated that it will be completed by Summer 2015. There are unlikely to be any major changes to the policy.

2.2 Work has also been ongoing on the Council's Risk Appetite, however again this was delayed due to staff changes at Zurich. Zurich's final report on this is now being considered.

2.3 The Risk Management Group continues to meet on a quarterly basis. Members of this group are provided with an overview of the current situation/performance of operational risks and emerging/ongoing risks are discussed. To encourage and assist with attendance at the Risk Management Group it has been decided to rotate the venue to include some of the outlying NSDC locations. Attendance has since increased which has been beneficial.

2.4 The group has brought up a number of risks and queries which have been discussed, including insurance and liabilities of Officers working across our collaborative arrangements. There was a lot of discussion regarding how contracts and agreements should be made in relation to partnership working and this has been taken forward as an action. Our insurers also attend this meeting and give advice of legal cases and changes in law nationally that may affect our response or actions in relation to risk.

3.0 Strategic Risk

3.1 Details regarding Strategic Risks are held within a specific report in this agenda.

4.0 Operational Risk

4.1 A review of operational risks with outstanding actions was undertaken by the Safety and Risk Management Officer (SRMO) in Autumn 2014. Where necessary, additional steps were agreed and put in place. Following concerns raised during Building Control assurance reporting, that risks were not correctly rated or relevant, operational risks have been re-assessed and are now up to date and reflect operational risks present. It is intended that a further review will be undertaken to ensure all operational risks remain relevant, have appropriate actions and are on target for completion where required in the next 6 months.

- 4.2 An additional corporate operational risk has been developed for Safeguarding. This cross Business Unit risk will cover our management processes and training rollout. Work is also underway to produce a corporate operational risk assessment to support the housing growth strategy. Both support/supplement specific strategic risks.
- 4.3 It has been identified that the devolution project, formulation of the Leisure TEKAL company and the new HQ project (including relocation) will present operational risks to some specific Business Units. It is intended that further work, with the assistance of SRMO, will be undertaken to ensure they are appropriately identified within their relevant operational risks.
- 4.4 As a result of changes within banking situations, risks around our banking practices have also been reviewed. This operational risk is one of only six risks across the Council which is identified as high risk. The other 5 are mainly in line with welfare reform changes and its impact, and the wider financial climate and the effect it has on the organisation. However there is also a strategic risk considering the economic climate and the Council is satisfied that the situation is being managed and mitigated against as effectively as possible.
- 4.5 Due to the impending parliamentary elections, operational risks in relation to elections have been reviewed and updated. Risks have also been reviewed in relation to the now multi-use of Kelham Hall and issues of security, fire safety and health and safety have also been reviewed
- 4.6 Considering an assessment of risk and linking to our Health and Safety responsibilities, we have carried out further training to supervisors within high risk business units on health and safety and risk assessments. This was specifically aimed at Leisure Centre Staff and Waste management.

5.0 RECOMMENDATION

- 5.1 That members consider this report and advise what information regarding risk management they would like to see in the future.

Background Papers

Nil.

For further information please contact Lisa Lancaster on ext 5232

STRATEGIC RISK REGISTER
REPORT PRESENTED BY: Lisa Lancaster

1.0 Purpose of Report

1.1 To advise members of the committee of the status of the Strategic Risks for the council.

2.0 Introduction

2.1 Strategic risks are those significant risks faced by the Council that have the potential to halt or interfere with its ability achieve its strategic objectives, priorities and ambitions.

2.2 Strategic risks are determined at CMT level with the assistance of our insurers and should support the objectives and direction of the Council. They are concerned with how the whole organisation is positioned in relation to achieving its aims and are affected by numerous internal and external factors, some of which will out of the control of this Council. The purpose of actions plans around Strategic Risks is to control or mitigate those high-level risks and support the council in achieving its aims.

2.3 This Council currently has 9 strategic risks within its strategic risk register:

- STRAT_SR001 Reduced public sector funding and major income streams leading to potential inability to meet objectives
- STRAT_SR002 Major projects
- STRAT_SR003 Growth delivery
- STRAT_SR004 Supply Chain failures and contract management
- STRAT_SR005 Workforce planning, development and transformational change
- STRAT_SR006 Community cohesion
- STRAT_SR007 Continuity of service (civil contingency/emergency)
- STRAT_SR008 Corporate governance
- STRAT_SR009 Data management and security

2.4 Further details on each of these risk, including risk profile, trigger points, actions and mitigations are attached at appendix A.

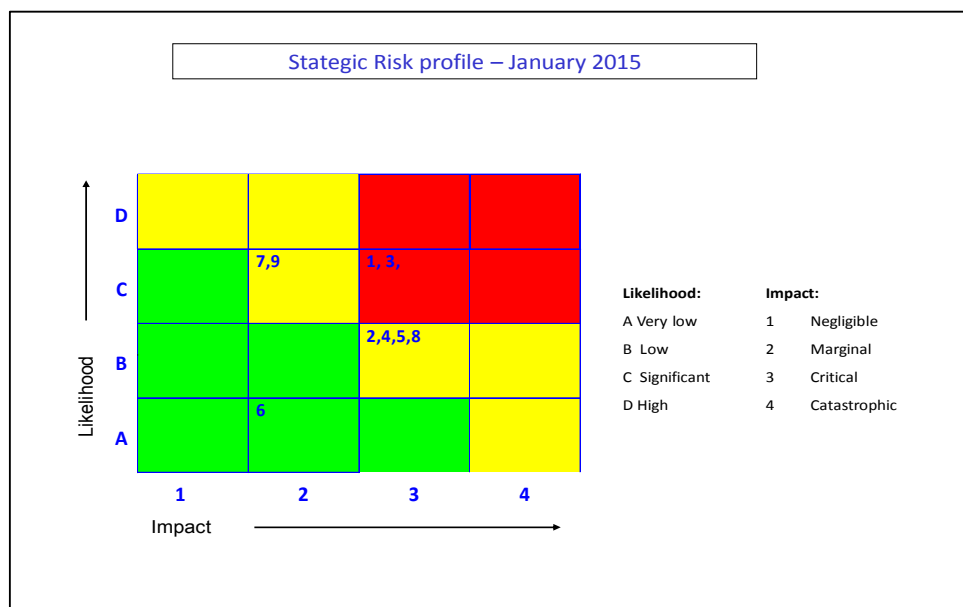
2.4 Ownership of each risk is assigned to a relevant director(s) who have, with the assistance of managers, developed action plans to manage, mitigate or reduce the risk accordingly. However, as the very nature of strategic risks are multifaceted and influenced by many outside factors/controls, some actions can be very long term and the ability to reduce the risk level may be limited. Having risks that are either shown as high risk or above target risk level does not necessarily mean that the council are not managing the risk.

2.4 Beneath the strategic risks, the council has operational risks for all business units. These have been developed between business managers and the Risk and Safety Management Officer and have been placed on Covalent for management purposes. Both managers and directors have responsibility to manage and monitor these.

3.0 Current Risk levels

3.1 As required by the Risk Management Policy, the strategic risks were formally reviewed this year, during a workshop facilitated with our insurer Zurich Municipal, and agreed by CMT. A further interim review will be undertaken shortly.

3.2 Table below illustrates current the strategic risk profile.



3.3 Currently STRAT_SR001 Reduced Public Sector Funding and Major Income Streams and STRAT_SR003 Growth Delivery are assessed as “HIGH” risk. Both have the same score, which they retained since the January 2013 review. The nature of both of these risks, as previously highlighted, means that external issues beyond our control effect the impact and likelihood of these issues, and the directors responsible are satisfied that we are doing all we can to manage and mitigate risks associate with these targets.

3.5 STRAT_SR007 Continuity of service (civil contingency/emergency), previously titled ‘Severe weather,’ was scored as high risk. This has recently been reviewed and reclassified to the lower category of medium risk. This is because although we cannot prevent the severe weather, contingencies, plans and information means that communities are more prepared for such events and it is anticipated that the impact may therefore be decreased.

3.6 The following strategic risks remain, as previously reported Audit and Accounts, as medium risk.

- STRAT_SR002 Major projects
- STRAT_SR004 Supply chains and contract management
- STRAT_SR005 Workforce planning, development and transformational change
- STRAT_SR008 Corporate governance
- STRAT_SR009 Data management and security

3.7 Following a review carried out in November 2014 STRAT_SR006 Community cohesion is now the lowest scoring strategic risk. However due to the impending Parliamentary elections, this risk could be returned to medium risk. It will be assessed again next month.

4.0 RECOMMENDATION

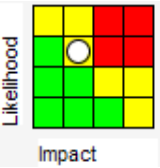
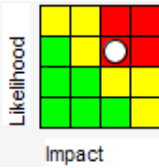
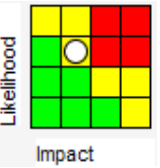
4.1 That members accept the Strategic Risks as identified in Appendix A to this report.

Background Papers


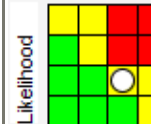
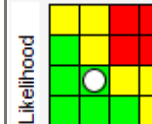
Nil.

For further information please contact Lisa Lancaster on ext 5232

Appendix A

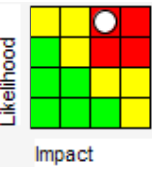
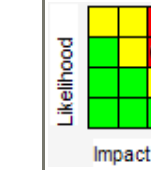
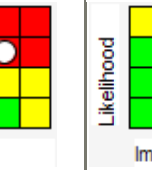
Risk Name & Code	STRAT_SR001 Reduced Public Sector Funding and Major Income Streams and potential inability to meet objectives		Risk Owner	(P) Corporate Management Team; Dickinson, David (CMT)		
Risk Description	The impact of external funding cuts on the ability of all public sector organisations to deliver services and the loss of major income streams		Assigned To	Lovely, Nicola(BM - FIN-SERV);		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
			Last Review Date	Target Date	Management	
			02-Dec-2014	30-Apr-2015	Controlled	
Vulnerability	<p>Reduced Income</p> <p>Unrealistic expectations</p> <p>Inability to deliver and maintain service</p> <p>Unable to meet objectives outlined in the strategic priorities</p>					
Trigger/Event	<p>Projects undertaken to mitigate funding cuts are unsuccessful in producing the necessary savings</p> <p>Contractions in the provision of other public services, leading to increased expectations and demand on the district council.</p> <p>Reduced customers for income generating services</p> <p>Service failure leading to loss of income</p> <p>Competition - Local competitor seeking increased market share</p> <p>Inability to compete due to financial constraints, eg. political decisions, legal decision, staff retention</p> <p>Further cuts in Government funding</p> <p>Economic climate and less Government grant</p> <p>Inability to respond to change significant drop in income</p> <p>Unexpected increase in costs</p> <p>Reduction in Business Rates received</p> <p>Poor revenue planning of new projects</p> <p>Increase in demand for non income services</p> <p>Changing legislation or government policy e.g. changes to new homes bonus disabled facilities grants.</p>					

Impact/Consequence of Trigger	<p>Loss of income</p> <p>Increased costs/lower level of service provided</p> <p>Decline in outcomes eg. crime and health major issues around vulnerability</p> <p>Capacity to maintain service delivery</p> <p>Dissatisfaction with Council performance</p> <p>Failure of collaborative or joined up approaches</p> <p>Loss of local services/facilities</p> <p>Strategic direction of the Council changes or becomes unclear</p> <p>Need to change existing policies</p> <p>Service closure</p> <p>Negative media coverage and customer dissatisfaction</p> <p>Loss of staff morale</p> <p>Reduction in ability to invest locally</p> <p>Restriction of service choices, eg. sustainable procurement</p>
Measures already in place	<p><u>Objective:</u> Critical success factors are maintaining and improving services whilst delivering an acceptable level of Council Tax</p> <p><u>Controls:</u></p> <ul style="list-style-type: none"> . Changing Focus - Future Focus plan discussed and put in place at CMT on 3rd September 2013 . Income forecasting e.g. New Homes Bonus and Business Rates. . Smart Focus programme in place to protect front line services. . Well established officer budget process; . Medium Term Financial Plan; . Capital Programme; . Ongoing work on the Council's objectives for 2012 - 2015; . Major income streams monitored by CMT . Development of future focus. . SLA's with voluntary sector providers . Regular assessment of all available resources by S151 officer . Financial strategies and budget reviewed through Policy Committee annually - Budget Strategy report to Policy Committee 19th December and presentations to Committee Chairman and opposition Leader
Further control/actions required	<p>The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Risks Module of Covalent.</p>
Linked Actions	Progress Bar

Risk Name & Code	STRAT_SR002 Major Projects		Risk Owner	Cole,-Kirsty (CMT); Dickinson, David (CMT)		
Risk Description	Impact on the delivery of Council services due to the failure of major projects eg. New Leisure Centre, National Civil War Centre, Head Office, devolution project, or investment and borrowing decisions		Assigned To	Lovely, Nicola(BM - FIN-SERV); Greaves Ged (BM – POL&COM)		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
 Likelihood Impact	 Likelihood Impact	 Likelihood Impact	Last Review Date	Target Date	Management	
			02-Dec-2014	30-Sep-2015	Controlled	
Vulnerability	<p>Projects overdue, over budget, undelivered or project creep</p> <p>Staff are not relocated in an appropriate manner/timeline</p> <p>Reputational damage</p> <p>The saving that can be achieved by moving may not be widely understood by stakeholders and the public</p> <p>Capacity to deliver and co-ordinate a range of major projects to time and budget</p> <p>The devolution project is unsuccessful</p> <p>Devolution project - Community assets/services are lost</p> <p>Community/organisations being required to take on assets may not materialise and as a result service/assets of the Council may be lost.</p>					
Trigger/Event	<p>Significant changes in interest rates</p> <p>Investment in known capital priorities (inc National Civil War Centre, Leisure Centre and new Headquarters)</p> <p>Investment arising from "prosperity" agenda which hasn't already been identified eg. land/property</p> <p>Necessary redirection of funding to address greater priorities</p> <p>Delays in decision making process</p> <p>Loss of key personnel leading to inability to drive project</p> <p>Procurement failure/legal challenge if we follow an open procurement route</p> <p>Political change</p> <p>Partnership/Contractual failures</p>					

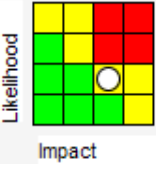
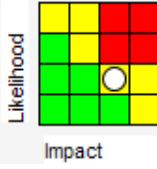
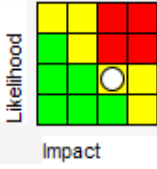
	<p>Change in NSDC/Community needs in relation to longer term projects</p> <p>Failure to adequately manage expectations politically and in the Community</p> <p>Inadequate Governance arrangements</p> <p>Failure to produce appropriate and adequate specifications</p> <p>Adverse/severe weather disrupting building</p>
Impact/Consequence of Trigger	<p>May need to borrow further monies - Long term impact of level of debt</p> <p>Reduced flexibility and the impact on the delivery of future priorities depends on if we have the ability to borrow more or if we can afford to borrow more</p> <p>Loss of a service</p> <p>Increased costs affecting the ability to deliver revenue budget savings and impacting on the delivery of other services</p> <p>External intervention - the Govnt may stop us from borrowing/investing may affect project delivery eg. HRA strategy</p> <p>Delays or failures in project delivery and potential increase in cost</p> <p>The Project delivered is not within specification/scope or meet the required needs</p> <p>Possible impact on medium term financial plan</p> <p>Loss of public/community support & engagement</p> <p>Savings may not materialise from projects</p> <p>Potential reputational damage</p>
Measures already in place	<p>. Robust project management procedures in place</p> <p>Project Boards for life of projects</p> <p>Individual project plans.</p> <p>Member groups where applicable</p> <p>Regular monitoring and reporting of progress throughout the committee structure</p> <p>Trained project managers</p> <p>Buy in expertise as required</p> <p>. Robust business planning and risk assessment at the appropriate time</p> <p>. Appropriate governance arrangements (See SR008)</p> <p>. MTFP</p> <p>Annual Treasury strategy covering next three years plus mid year review</p> <p>. Treasury estimates covering next five years, treasury management reports taken to A&A Committee</p>
Further control/actions required	<p>The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Risks Module of Covalent.</p>
Linked Actions	Progress Bar

STRAT_RP-SR002 Major Projects - Risk Action Plan	50%
Linked PIs	Status

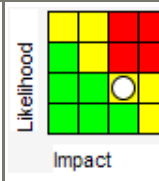
Risk Name & Code	STRAT_SR003 Growth Delivery		Risk Owner	Cole, Kirsty (CMT); Statham, Andy (CMT)		
Risk Description	The inability of the market to deliver the Councils growth agenda. This failure may reduce investment in infrastructure, inward investment, job opportunities, new housing and commercial development therefore impacting on communities and businesses.		Assigned To	Matt Lamb (BM – DEV) Matthew Norton (BM-Plan –P); Julie Reader-Sullivan(BM-ECO-GRO);		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
			Last Review Date	Target Date	Management	
			23-Jul-2014	30-Sep-2014	Control Pending	
Vulnerability	<ul style="list-style-type: none"> . Inability of the market to deliver Growth agenda including housing, infrastructure, commercial and leisure requirements affecting the investment potential. . Low confidence in house building sector . Low growth locally . No investment due to the economic climate locally and nationally . Limited development for infrastructure/technology for rural locations 					
Trigger/Event	<ul style="list-style-type: none"> . Delay of delivery of project due to investors/financial climate . Impact of Government forecasts and predictions. . Economy Recovery falters. . Uncertainty leading up to the Election slowing down policy . Impact of Community Infrastructure Levy on future development . Non availability of funding streams . Change in bank of England interest rates which reduce appetite to invest 					

	<ul style="list-style-type: none"> . Fluctuations in inflation . Reduced level of Grant settlement received post 2014 . The consequences of service reductions introduced by other public sector providers. . Planning objections delaying progress . Planning consents not started . Poor infrastructure . Climatic events severe weather events . Impact of closure of a major local employer . Loss of significant business resulting in loss of confidence in investing in local area - also knock on effect to suppliers and supportive businesses. . Loss of key train routes
<p>Impact/Consequence of Trigger</p>	<ul style="list-style-type: none"> . Insufficient homes being built in the district to meet demand, including affordable housing . Infrastructure not provided . Jobs not created (loss of employment/jobs not created) Failure to hit Growth aspirations and the consequential loss of income Growing inability of NSDC to respond to increased need or support in the community . Reduced Council Income from fees and charges . Reduced funding/income will constrict service delivery . Increased homelessness . Increased unemployment . Lack of external investment in the District . Insufficient businesses / roles to support expansion of community . Sustainability of community not improved
<p>Measures already in place</p>	<ul style="list-style-type: none"> . Allocations DPD has been adopted and this will further facilitate growth in housing and employment over the coming years. . Building companies are now putting in place increasing build programmes for 2014 onwards. . A new major application is expected for the next phase at Fernwood in the near future. . Meeting with strategic site owners. . Land south of Newark shortlisted for loan facilities through the HAD and RDB. . The Council's Think BIG loan scheme is operating and 6 loans have been made, with further loans being considered. . Further consideration is being given to ways in which the council might encourage further housing growth within the period to 2015 to maximise receipt of New Homes Bonus. . Partnership with LEP and local businesses growing and improving . Monitoring of key economic data

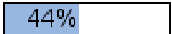
	<ul style="list-style-type: none"> . Partnership arrangements with local colleges and universities. New Joint Committee for Nottinghamshire. . Prosperity Agenda is the main priority for the council including funding scheme for new business development LDF and core policies in place Homes and Communities Agency: . Local Investment Plan and Local Delivery Plan in place . Local Housing Strategy in place . Working in partnership with Registered Providers, Homes and Communities Agency and other bodies to develop new build housing schemes across the district . Developing the Housing Growth Strategy for additional new build Council housing. . Land south of Newark outline planning application approved . Revision of the Economic development Strategy with continued focus on Inward Investment, Business Growth, . Employability & Skills, key sectors and infrastructure. Refined objectives and work plan is under development. . Identification of local NSDC Land for development . Undertake Regeneration activities currently focussed on Bridge Ward, Boughton & Hawtonville. . Sale of Kelham Hall and relocation and construction of new Council offices will help to stimulate local economic growth.
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Risks Module of Covalent.
Linked Actions	Progress Bar
STRAT_RP-SR003 Growth Delivery - Risk Action Plan	<input type="text" value="0%"/>
Linked PIs	Status

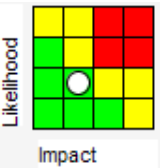
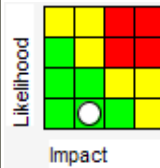
Risk Name & Code	STRAT_SR004 Supply Chain Failures and Contract Management		Risk Owner	Dickinson, David (CMT); Cole, Kirsty (CMT);		
Risk Description	Failure of key suppliers, key service providers to deliver contracted or agreed services, leading to service delivery failure		Assigned To	Lovely, Nicola(BM - FIN-SERV); John King(BM -PROC)		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
			Last Review Date	Target Date	Management	
			02-Dec-2014	31-Mar-2015	Controlled	
Vulnerability	<p>Inability to deliver key services</p> <p>Failure to meet legal requirements</p> <p>Reputational issues</p> <p>Impact on delivering statutory services</p> <p>Quality of the service provision may not be in line with regulatory/Council's requirements and or expectations.</p> <p>This does not cover the risks of major projects - these are covered within the projects themselves.</p>					
Trigger/Event	<p>Partners withdrawing</p> <p>Contracts fail to deliver outcomes</p> <p>Funding and financial management issues e.g. loss of funding, failure of financial management, termination of contract and requirement to recommission/procure</p> <p>Governance issues</p> <p>Poor contract management/failure</p> <p>Poor specification/contract design</p> <p>Legal challenge of procurement route and or contract award</p> <p>Business Continuity/Emergency Planning issues occurring</p> <p>Insufficient insurance</p> <p>Failing to consult with the relevant experts</p> <p>Data loss/privacy</p> <p>Lack of/poor effective exit strategies</p> <p>Poor quality of services</p> <p>Insufficient provider availability</p>					
Impact/Consequence	Cost overruns, hidden costs, increased costs					

n ce of Trigger	<p>Delays in delivering services - crisis management</p> <p>Reputational issues and/or negative media</p> <p>Reduction in quality of service delivery</p> <p>Failure in service provision - performance management issues</p> <p>Impact on capacity</p> <p>Rising complaints from service users - Loss of quality of service</p> <p>Non compliance of legislative requirements</p>
Measures already in place	<p>Robust procurement polices and procedures</p> <p>Audit</p> <p>Business Continuity plans/Emergency Planning/Contingency plans</p> <p>Insurance - Employers liability and professional indemnity</p> <p>Flexible procurement for energy</p>
Further control/actions required	
Linked Actions	Progress Bar
Linked PIs	Status

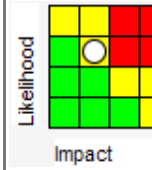
Risk Name & Code	STRAT_SR005 Workforce Planning, Development and Transformational Change		Risk Owner	Cole, Kirsty (CMT); White, Karen (CMT)		
Risk Description	Ensuring that the Council and it's workforce has the ability and skills to adequately respond to current and future organisational change meaning the Council is able to deliver its services in the most efficient and effective manner.		Assigned To	Glass, Caroline (BM - HR AND LEGAL) Deputy; Mellors, Tracey (BM - HR AND LEGAL)		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
			Last Review Date	Target Date	Management	
			16-Dec-2014	26-Sep-2014	Controlled	
Vulnerability	<ul style="list-style-type: none"> . Lack of skills to deliver the required services . Change process may stall or be lengthy or may not meet needs. . Not meeting council objectives and priorities . Inability to respond to the public's needs . Lack of succession/capacity to support unexpected resource change/losses . New remote/lone working requirements impacting on service delivery, morale and potential health and safety issues 					
Trigger/Event	<ul style="list-style-type: none"> . Key staff leaving - increased levels of absenteeism . Inability to recruit appropriate skills set . Inability to succession plan effectively . Increased pressure on resources and time through change period . Recruitment / retention issues . Restructure still ongoing - managing through the change period . Pay restraint . Terms and conditions changes . Government Policy changes . DCLG requirements . Poor change management . Restructure procedure being drawn out meaning unclear understanding of responsibilities/Lack of ownership . Political change . Further funding cuts required - further restructures 					


	<ul style="list-style-type: none"> . Delayed decision making process
<p>Impact/Consequence of Trigger</p>	<ul style="list-style-type: none"> . Increased staff stress levels . Increase in sickness absence levels . Morale reduced resulting in lower outputs Loss of critical staff/ appropriate skills . Reduced capacity and ability to deliver . Failure to meet objectives (corporate) . Service delivery failure . Increased cost/possible reduction in income . Lack of momentum and impetus in developing the change process . Unclear understanding of responsibilities . Savings not achieved . Lack of capacity to meet demand . Failure to deliver change in culture . Loss of opportunity to work differently . Reputational issues leading to difficulty in recruitment . Increase of civil and criminal claims . Safety of Employees
<p>Measures already in place</p>	<ul style="list-style-type: none"> . Robust risk management process in place to ensure ongoing projects and initiatives are supported . Business Managers have individual development plans to help them manage change and risk. . Snr HR Officers have adopted "business partner" approach to support business managers in managing sickness absence, capability etc. . Effective communications by way of monthly Chief's Brief and JCC meetings to ensure staff regularly updated of changes within the Council and two way communication/feedback, Staff Workshop sessions. Staff communication processes including roadshows, Chief's Briefing, internet updates, information emails, workshops, staff survey, IIP reassessment . Review of HR policies to ensure they remain robust and fit for purpose. . Selima system continuously upgraded to give business managers ownership / control over staff sickness. . HR working closely with Business Managers to support organisational change Partnership approach with recognised trade unions to support organisational change . Counseling and welfare support for staff . Commissioning process refined to improve staff involvement . Visible leadership . Ongoing collaborative and shared services activities. . Future focus program . Training and development programme to support ongoing development of skills and competencies and BM and other staff change management . Alignment managing reducing resources and increased demand through alignment of budget and

	<p>commissioning process..</p> <ul style="list-style-type: none"> . An initial review of accommodation usage has taken place in anticipation of the need to squeeze up in Kelham Hall as part of the Culture and Working Practices . Agile working policies adopted and action plan developed.
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Risks Module of Covalent.
Linked Actions	Progress Bar
STRAT_RP-SR005 Workforce Development and Transformational Change - Risk Action Plan	
Linked PIs	Status

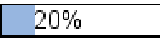
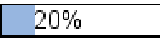
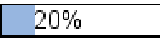
Risk Name & Code	STRAT_SR006 Community Cohesion		Risk Owner	Statham, Andy (CMT); White, Karen (CMT)		
Risk Description	<p>The risk of various communities within NSDC feeling excluded or disengaged, including, rural, deprived, minority and vulnerable communities and local businesses etc.</p> <p>This may lead to acute situations with the remote risk of tension/unrest in the most severe cases.</p>		Assigned To	Lancaster, Lisa (BM - COM-SAF);		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
			Last Review Date	Target Date	Management	
			06-Jan-2015	31-Mar-2014	Controlled	
Vulnerability	<ul style="list-style-type: none"> . Disengagement between Council and Community . Breakdown within Communities 					
Trigger/Event	<ul style="list-style-type: none"> . National/local trigger violent incident (spread) . Local incident leading to cultural tensions / incidents/crime . Withdrawal of targeted services/budgets within our control - supported housing and CAB support, . Changes in services beyond our control - e.g. policing social care and adult services . Local decision making - e.g. contentious planning decision . Closure of a major employer increasing deprivation and unemployment . Change in benefits systems leading to reduced income . Increased unemployment due to economic downturn . Increase in migrant workers perception in competition for jobs, housing, welfare 					
Impact/Consequence of Trigger	<ul style="list-style-type: none"> . National/local trigger violent incident (spread) . Local incident leading to cultural tensions / incidents/crime . Withdrawal of targeted services/budgets within our control - supported housing and CAB support, . Changes in services beyond our control - e.g. policing social care and adult services . Local decision making - e.g. contentious planning decision . Closure of a major employer increasing deprivation and unemployment . Change in benefits systems leading to reduced income 					

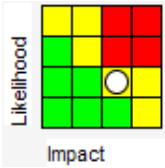
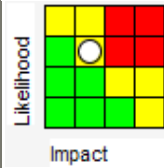
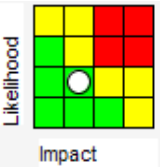
	<ul style="list-style-type: none"> . Increased unemployment due to economic downturn . Increase in migrant workers perception in competition for jobs, housing, welfare
Measures already in place	<ul style="list-style-type: none"> . Community Impact Assessments carried out by Nottinghamshire Police but shared with council. This monitors tensions and community feelings after a trigger event and monitors how the local community may react. Consultation is carried out with local council as part of this process. . NSDC Monthly / fortnightly multi agency meetings considering community vulnerabilities with police, probation, health, NCC etc. to discuss local crime issues, hate crime, vulnerable people and offenders. Meeting includes case management and actions are determined based on the findings and multi-agency powers and controls. . Gypsy and traveller liaison officer in place through NCC with monthly local agency meetings and local project with community safety team working within local gypsy traveller communities. . National monitoring of all tensions through police forces - updated through local residence forums whenever necessary and actions then dealt with by Nottinghamshire local resilience forum (LRF) with rep from district councils. . Day to day links with police through community safety team to liaise regarding any immediate issues / concerns. . Internal links with housing, planning, homelessness and benefits to ensure understanding of potential impact of service provision changes. . CCTV regarding day to day ongoing issues. . Continued funding and support to CAB.
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Risks Module of Covalent.
Linked Actions	Progress Bar
STRAT_RP-SR006 Community Cohesion - Risk Action Plan	75%
Linked PIs	Status

Risk Name & Code	STRAT_SR007 Continuity of Service (Civil contingency/Emergency)		Risk Owner	White, Karen (CMT)		
Risk Description	<p>The short term and long term effects within the district due to severe weather events i.e. floods, snow, drought or unexpected event. This could lead to short term service delivery issues and resilience issues for all affected communities. If severe or frequent enough this may have a negative effect on both domestic and commercial communities.</p> <p>NSDC is located within significant flood plain leaving communities at potential risk from flooding. The link with climate change has meant floods are now more likely to occur. Floods can be as a result of fluvial or pluvial flooding issues. The risk is to both NSDC as a business continuity issue and to our at risk communities.</p>		Assigned To	Lancaster, Lisa (BM - COM-SAF)		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
			Last Review Date	Target Date	Management	
			06-Jan-2015	31-Dec-2015	Control Pending	
Vulnerability	<ul style="list-style-type: none"> . Limited resources to respond to an event - especially in the longer term . Reduced staff for on call/standby . Sustainability issues . Capacity Issues . Effect on communities (commercial or domestic) . Large rural and elderly populations making flood defense systems and support more difficult. 					
Trigger/Event	<ul style="list-style-type: none"> . Extreme weather event of greater frequency and severity . Prolonged heavy rainfall causing localised flash flooding . Prolonged continuous rainfall or heavy snow melt causing flooding . Prolonged drought/Heatwave . Heavy snowfall/prolonged low temperatures . Unpredictable event 					
Impact/Consequence	<ul style="list-style-type: none"> . Drain on services to provide an immediate and appropriate response 					


nce of Trigger	<ul style="list-style-type: none"> . Staffing and resourcing, prolonged events which will have an effect on service delivery. . Business Continuity issues at Kelham Hall and other council Centres - centres could be flooded or staff unable to get into work. . Reputational damage due to reduced capacity to respond to emergency or maintain services . Reputational damage to Newark and Sherwood as a whole - reduced growth due to issues with flooding, people and businesses moving out or not relocating to area. . Financial issues due to inability to carry out other income generating services and requirement to support the communities . Financial issues of being unable to claim back funding spent on assisting communities . Financial implication of up front costs required during an emergency. . Loss of resources i.e. vehicles, premises . Less likely to receive government support and grants due to cost benefit ratio. . Rural locations and dispersed nature flood plains also mean that during flooding, more difficult to respond and provide assistance. . Limited resources available for immediate response and reducing resources. . Reduced council staff capacity may result in further difficulty to support during flood crisis. . Knock on effects on growth and planning applications.
Measures already in place	<ul style="list-style-type: none"> . Emergency plans in place with county council support. . Business continuity in place. . Work with EA on flood resilience work has mitigated/reduced the risk in some areas. . Improved monitoring systems by EA for earlier warning for floods. . Raised awareness of flood risk, therefore increased understanding self help and increasing resilience. . Flood stores in some communities with provisions to self help and therefore not be as reliant on council. Improved understanding of snow implications and therefore better plans in place. . Council maintaining budget figure and reserve up to Belwin amount to cover emergency incidents. . work carried out with EA and Mary Dhonu on flood resilience during community events. However funding not found for resilience. . Increasing community resilience . Nott County Council reviewing resilience stores.
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Risks Module of Covalent.
Linked Actions	Progress Bar
STRAT_RP-SR007 Continuity of Service (Civil Contingency/Emergency) - Risk Action Plan	
Linked PIs	Status

Risk Name & Code	STRAT_SR008 Corporate Governance		Risk Owner	Cole, Kirsty (CMT); Dickinson, David (CMT)		
Risk Description	The risk of failures in systems of governance within the Council and within Council owned/influenced organisations, leading to Constitutional issues, fraud and corruption, failures in management systems, poor policy and decision making.		Assigned To	Lovely, Nicola (BM - FIN-SERV); Greaves Ged (BM – POL&COM);		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
 Likelihood Impact	 Likelihood Impact	 Likelihood Impact	Last Review Date	Target Date	Management	
			02-Dec-2014	31-Mar-2015	Controlled	
Vulnerability	<ul style="list-style-type: none"> Failures in service delivery Potential for fraud and corruption Poor policy and decision making 					
Trigger/Event	<ul style="list-style-type: none"> Failure to observe good governance Fraud and corrupt practice identified Fraud and corruption practices not identified or dealt with leading to an incident of fraud & corruption. Failure in Policy adherence (All policies) Malicious event Gaps in procedures and/or failure to manage leading to an incident of fraud & corruption Regulator finding fault Legal challenge or prosecution or finding of maladministration 					
Impact/Consequence of Trigger	<ul style="list-style-type: none"> Financial resource loss Service delivery issues Criminal investigation and proceedings/drain on resources/morale Reputational risk to the Council Negative media coverage Policies could be open to external challenge Legal costs incurred Poor or inadequate decision making leading to a delay. 					

Measures already in place	<ul style="list-style-type: none"> . Member register of interest completed and monitored . Related third party transactions . Fit for purpose and up to date Council Financial regulations, contract procedure rules, whistle blowing policy, Anti fraud and corruptions strategy with regular and appropriate reviews. . Internal Audit work including risk based Audit Plan . Use of External Auditor . Audit and Accounts Committee . Training of staff and members on governance, standards and Constitution . Standards committee & localised standards framework and effective arrangements for dealing with complaints - internal complaints procedure and external regulators . Insurance cover . Recruitment process controls, eg. References, Immigration, CRB . Participation with National Fraud Initiative process . Gifts and hospitality - policy and register place . Corporate Governance self assessment undertaken annually . Annual governance statement Section 151 officer. . Officer code of conduct . Office register of interests . Combined assurance report (annual) . Counter fraud training delivered to 94.5% of relevant staff . Fraud risk register completed and reported to members 								
Further control/actions required	<p>The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Risks Module of Covalent.</p>								
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="140 1447 1268 1514" style="text-align: left;">Linked Actions</th> <th data-bbox="1268 1447 1437 1514" style="text-align: center;">Progress Bar</th> </tr> </thead> <tbody> <tr> <td data-bbox="140 1514 1268 1592"> STRAT_RP-SR008 Corporate Governance - Risk Action Plan </td> <td data-bbox="1268 1514 1437 1592" style="text-align: center;"> <div style="border: 1px solid black; padding: 2px; display: inline-block;">  20% </div> </td> </tr> <tr> <th data-bbox="140 1592 1268 1659" style="text-align: left;">Linked PIs</th> <th data-bbox="1268 1592 1437 1659" style="text-align: center;">Status</th> </tr> <tr> <td data-bbox="140 1659 1268 1720"> </td> <td data-bbox="1268 1659 1437 1720"> </td> </tr> </tbody> </table>		Linked Actions	Progress Bar	STRAT_RP-SR008 Corporate Governance - Risk Action Plan	<div style="border: 1px solid black; padding: 2px; display: inline-block;">  20% </div>	Linked PIs	Status		
Linked Actions	Progress Bar								
STRAT_RP-SR008 Corporate Governance - Risk Action Plan	<div style="border: 1px solid black; padding: 2px; display: inline-block;">  20% </div>								
Linked PIs	Status								

Risk Name & Code	STRAT_SR009 Data Management & Security		Risk Owner	Finch, Matthew (CMT)		
Risk Description	Deliberate or unintentional loss/disclosure of personal, sensitive, confidential or business critical information or breach of Information Governance Legislation		Assigned To	Simpson, Jill (BM - CUST-SERV); Parkinson, Sharon (BM - ICT);		
Original Risk Matrix	Current Risk Matrix	Target Risk Matrix	Risk Review Period	Quarterly		
			Last Review Date	Target Date	Management	
			23-Jul-2014	30-Sep-2014	Control Pending	
Vulnerability	<ul style="list-style-type: none"> . Loss of vulnerable, personal, sensitive, valuable data . Legal action . Use of partnering arrangements . Use of suppliers/third parties etc . Government integration agenda 					
Trigger/Event	<ul style="list-style-type: none"> . Personal, confidential or corporately sensitive/business critical information disclosed unintentionally or through error of judgement when responding to requests for information, data breach - intentional (malicious) or unintentional. . Theft or loss of equipment / papers . Targeted cyber attack. . Move towards Agile Working ie. more mobile/remote/home working/home printing/disposal of printed data . New information governance legislation pending . Ongoing changes in Welfare Reform and uncertainties regarding forthcoming changes . Reducing resources with less capacity for processing data . Collaborative working, sharing, outsourcing and partnership working (including external printing and hybrid mail)/involvement in other peoples data . Greater use of BYOD (Bring your own device) 					
Impact/Consequence of Trigger	<ul style="list-style-type: none"> . Damage to reputation of the Council/trust by the public. . Breach of Access to Information legislation bringing about financial/legal damage - imposed on the council by the Information Commissioner and other Statutory Bodies . Disciplinary action taken against a member of staff and elected members if a breach is found to be deliberate/malicious Operational and resource issues eg. service interruption - 					

	<p>Where focus has to be taken away from service delivery to dealing with the breach.</p> <ul style="list-style-type: none"> . Individual loss/damage to an individual where the Council inappropriately released their personal data. . Drain on resources to process and enable conformity in legislation. . Possibility of falling foul of legislation in other areas due to the drain on resources dealing with information governance legislation changes . Financial impact of Information Commissioner investigation . Damage to systems from Cyber attack . Impact on Agile working - lack of ability to work remotely.
<p>Measures already in place</p>	<ul style="list-style-type: none"> . Training and guidance available for records officers, other members of staff and elected members. . Information management framework incorporating Security Policy and Security Breach Policy. . External Audit on ICT security annually. . Information Governance audit - periodic. . Weekly review of ICO guidance . Decluttering exercise - (paper). . Diet file - (electronic). . Retention of document policy. . Encryption for laptops. . VASCO tokens. . Quarterly security checks internally. . Penetration test annually for external company - monthly scans of servers for weaknesses, monthly server updates and monthly scans of Microsoft Office and Windows. . Firewall (x2). . Perimeter software - eg. mailmarshall & webmarshall. . Hardening test on new virtual servers. . Scanning documents as part of the IDOX transfer therefore removing need for paper. . Secure server room. . East Midlands WARP membership - alerting networking facility regarding any breaches. . Monthly updates of Adobe products . Program in place to ensure the continual maintenance & upgrade of the environment . Compliance with the governments security arrangements . Implementation of new Information Management Framework.

	<ul style="list-style-type: none"> . implemented Dual Factor Authentication for accessing OWA (Outlook Web Access) . PSN compliant data & internet connections implemented
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Risks Module of Covalent.
Linked Actions	Progress Bar
STRAT_RP-SR009 Data Management & Security - Risk Action Plan	
Linked PIs	Status

AUDIT COMMISSION REPORT - PROTECTING THE PUBLIC PURSE 2014

1.0 Purpose of Report

1.1 To present the Audit Commission report - Protecting the Public Purse 2014.

2.0 Background Information

2.1 The Protecting the Public Purse Report 2014 is the last in a series which summarises the key findings from the Audit Commission annual survey on counter-fraud in local government. The report is attached at Appendix A.

2.2 As this is the last report on counter fraud that the Audit Commission will produce before its closure in 2015, the report also describes trends over the last five years and presents learning from twenty five years of experience of counter-fraud in local government

3.0 Summary of Information

3.1 In 2013, the National Fraud Authority estimated fraud cost to local government at £2.1 billion. However, this is probably an underestimate.

3.2 The type of fraud can be split into non-benefit related fraud and benefit related fraud. Non-benefit related fraud cases fell by 4% but the total value rose by 2%. Benefit related fraud cases fell by 1%, while their value rose by 7%.

3.3 In the past five years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud, and responsibility will pass to the Single Fraud Investigation Service. Details relating to this were included in the Counter-Fraud Activity report presented to the Committee in November,

3.4 Common areas where fraud is encountered in local government include:

- Council tax discount fraud - for each of the past five years this has been most common.
- Right to Buy fraud - large increases in the discount threshold on Right to Buy properties have driven the number of instances of fraud up five fold in past five years.
- Social Care - Detected cases have trebled over the past five years.
- Insurance - Detected cases have trebled over the past five years.

3.5 Areas where cases of fraud detection have dropped since 2010/11 include:

- Business rates - 319 cases with value of £5.7m decreased to 84 cases worth £1.2m
- Procurement- 145 cases with value of £14.6m decreased to 127 worth under£4.5m

This drop in detection could be due to less instances occurring as fraud prevention measures are working, or it could be due to Councils having fewer resources dedicated to counter-fraud measures and investigations.

3.6 Housing Tenancy Fraud increased 15% to over 3000 cases. However, this figure does not include fraud against housing associations, which provide the majority of social homes.

4.0 Issues facing Local Government

4.1 Between 2009/10 and 2013/14 the average number of full time equivalent (FTE) fraud investigators in local government declined by 10%. Falls in FTE numbers are generally associated with lower levels of detection.

4.2 After 2016, Central government will cease to contribute funds towards counter-fraud. Councils will need to recover more losses than previously using legislation such as the Proceeds of Crime Act 2002 to do so.

4.3 By far the most important issue is capacity. Other key issues include the need for better data sharing, corporate appreciation of the benefits of counter-fraud work, and sufficiently well trained staff to complete counter fraud effectively.

4.0 RECOMMENDATIONS

That Members note the content of the Protecting the Public Purse report.

Background Papers

None

For further information contact Graeme Black, Trainee Accountant - Financial Services

Protecting the public purse 2014

Fighting fraud against local government

October 2014



The Audit Commission's role is to protect the public purse.

We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.

We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.

We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.

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Summary and recommendations

This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before we close in March 2015. It draws on the learning from the Commission's 25-year experience in counter-fraud in local government.

- The Commission published *PPP* reports from 1991 to 2000 and again from 2009 to 2014. *PPP* reports have:
 - raised awareness of the importance of fighting fraud;
 - promoted transparency and accountability about counter-fraud in local government bodies;
 - improved data on fraud detection, including benchmarking; and
 - promoted good practice in fighting fraud.

The scale of fraud against local government is large, but difficult to quantify with precision.

- In 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but this is probably an underestimate.
- Each pound lost to fraud reduces the ability of local authorities to provide public services.
- The more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may be a positive sign that councils take fraud seriously rather than a sign of weakening of controls.

In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, their value increased by 6 per cent.

- The number of detected cases fell by 3 per cent to just over 104,000, while their value increased by 6 per cent to over £188 million.
- The number of detected cases of **housing benefit and council tax benefit fraud** fell by 1 per cent to nearly 47,000, while their value rose by 7 per cent to nearly £129 million.
- The number of detected cases of **non-benefit** fraud fell by 4 per cent to just over 57,400, while their value rose by 2 per cent to £59 million.

In the past 5 years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud.

- Between 1991 and 2000, nearly all fraud detected by councils was for housing benefit and later council tax benefit. During this time, councils had financial incentives to look for those frauds.
- These incentives ended in 2006, and councils have increasingly focused on non-benefit fraud in the past five years. Benefit frauds still comprise 45 per cent of all cases of detected fraud, and 69 per cent of their value.
- By 2016, all benefit fraud investigation will have transferred from councils to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions. The government's funding of £16 million from 2014, awarded under competitive bidding, to help councils refocus their efforts on non-benefit fraud during the transition will end at the same time.

Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies.

- Between 2009/10 and 2013/14, councils consistently detected more **council tax discount fraud** than any other type of non-benefit fraud. In the most recent year, nearly 50,000 cases were found, worth £16.9 million.
- Detected **Right to Buy** fraud cases have increased nearly five-fold since 2009/10 to 193 per year. In 2013/14 these were worth £12.3 million. The rise in the number of these frauds followed large increases in the discount threshold over this period.
- The number of detected cases of **social care** fraud has more than trebled since 2009/10 to 438. In 2013/14, they were worth £6.2 million.
- Detected cases of **insurance** fraud rose from 72 in 2009/10 to 226 in 2013/14 and were worth £4.8 million.

Overall, councils are detecting more non-benefit frauds, but detection rates for some types of frauds have fallen.

- In 2010/11, councils detected 319 cases of **business rates** fraud worth £5.7 million. In 2013/14, they detected 84 cases worth £1.2 million.
- In 2010/11, councils detected 145 cases of **procurement** fraud worth nearly £14.6 million. In 2013/14, they detected 127 cases worth less than £4.5 million.

- A small minority of 39 councils **failed to detect any non-benefit frauds** in 2013/14. This number is down by more than half since 2012/13, which is encouraging. Our experience suggests it is extremely unlikely that no non-benefit fraud occurred at these councils.
- Councils believe that organised criminals present a low risk of fraud, but there is concern that organised crime is more prevalent in procurement fraud.

Councils are detecting more housing tenancy fraud

- The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year to 3,030.
- In 2013/14, councils outside London recovered more than two in five (40 per cent) of these homes. This represents a marked improvement in their performance. In 2009, when the Audit Commission's *PPP* reports first highlighted this issue, councils outside London accounted for less than 5 per cent of all social homes recovered.
- These figures do not include fraud against housing associations, which provide the majority of social homes.

. . . and more fraud in schools.

- Detected cases of fraud in maintained schools have risen by 6 per cent to 206, worth £2.3 million. We have no data on fraud in non-maintained schools.
- Most of these frauds were committed by staff, suggesting that some schools may have weak governance arrangements that mean they are more vulnerable to fraud.

Local government bodies have a duty to protect the public purse. A corporate approach to tackling fraud helps them to be effective stewards of scarce public resources and involves a number of core components.

- **Prevention and deterrence:** it is not currently possible to quantify accurately the financial benefit from deterring fraud, but professionals in the field believe the prospect of detection is the most powerful deterrent. Councils should widely publicise what fraud is, the likelihood of detection, and the penalties fraudsters face.
- **Investigation and detection:** between 2009/10 and 2013/14, the mean average number of full time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent over the period. Our analysis suggests that a fall in FTE numbers is associated with lower fraud detection levels (see Chapter 4).

- **Recovery and redress:** after 2016, when central government no longer contributes funds for counter-fraud activity, councils will need to recover more losses than they have in the past. They can use legislation such as the Proceeds of Crime Act to do so.
- **Openness and transparency:** councils should look for fraud and record how many frauds they detect. Doing so would show leadership, allow them to compare their performance with other organisations, and alert them to emerging fraud risks more effectively.
- In 2013, only three in five (62 per cent) councils took up the offer of receiving one of the Commission's new **fraud briefings**, which contain comparative information on their detection levels.

From April 2015, the Commission's counter-fraud activities will transfer to new organisations.

- When the Commission closes, the National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office.
- The remainder of our counter-fraud staff and functions, including the *PPP* series and fraud briefings, will transfer to the Counter Fraud Centre, run by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Recommendations

All local government bodies should:

- a) use our checklist for councillors and others responsible for audit and governance (Appendix 2) to review their counter-fraud arrangements (Para. 120);
- b) adopt a corporate approach to fighting fraud, to ensure they fulfil their stewardship role and protect the public purse from fraud (Para. 78);
- c) actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI) (Para. 6);
- d) assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption (Para. 115); and
- e) engage fully with the new CIPFA Counter Fraud Centre (Para. 132).

Councils in particular should:

- f) protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud (Para. 100);
- g) be alert to the risk of organised crime, notably in procurement (Para. 31);
- h) be alert to the risks of fraud, particularly in growing risk areas such as Right to Buy (Para. 51) and social care (Para. 54);
- i) apply the lessons from the approach encouraged by *PPP* to tackle housing tenancy fraud, to other types of fraud (Para. 57);
- j) focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources (Para. 80);
- k) focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act (Para. 114); and
- l) take up the Commission's offer of receiving a fraud briefing to help them benchmark their performance and promote greater transparency and accountability (Para. 129).

The government should consider:

- m) mandating local government bodies to complete the annual survey of detected fraud and corruption, to ensure it remains a comprehensive and robust source of data on fraud in the local public sector (Para. 125);
- n) extending the requirement to report information on detected cases of fraud to academies and free schools (Para. 48);
- o) commissioning research into the extent of the annual loss to local authority fraud and the costs and benefits of fraud prevention activities (Para. 83);
- p) encouraging CIPFA to use the detected fraud and corruption survey in the future to investigate the extent to which fraudsters use digital and on-line technology to defraud local government (Para. 85);
- q) extending powers for councils to investigate all frauds, to protect the public purse (Para. 91); and
- r) working with councils to anticipate and mitigate any unintended risks of fraud created by new policies (Para. 42).

Chapter 1: Introduction

This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before it closes at the end of March 2015.

1 The first series of *PPP* reports ran from 1991 to 2000. After a gap of nine years, we relaunched the series following requests from local government bodies. Since then, we have reported figures on fraud detected by those organisations each year.

2 As in earlier reports, *PPP 2014* describes year-on-year changes in cases and values of detected fraud, based on the Commission's annual survey of local government bodies. As it is the last report in this series, it also describes trends in the past five years, and draws on the learning from the Commission's 25-year experience in counter-fraud in local government.

3 *PPP 2014* aims to inform the development of effective counter-fraud in local government after the Commission closes. It is designed for those responsible for governance in local government, particularly councillors, and describes:

- the amount of detected fraud reported by local government bodiesⁱ in 2013/14, compared with 2012/13 (Chapter 2);
- longer term trends (up to 25 years) in levels of detected fraud, and the lessons local government bodies can draw from this information (Chapter 3);
- the effective stewardship of the public purse, including taking measures to recover losses from fraud (Chapter 4); and
- measures to build on *PPP*'s legacy, so that local government bodies can continue to protect the public purse (Chapter 5).

ⁱ For the purposes of this survey we define fraud as an intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where management authorised action has been taken including, but not limited to, disciplinary action, civil action or criminal prosecution.

- 4 Appendices to this report contain:
- data tables of detected frauds and losses by region (Appendix 1);
 - an updated counter-fraud checklist for those responsible for governance (Appendix 2); and
 - case studies highlighting use of legislation, in particular the Proceeds of Crime Act, to recover monies from fraudsters (Appendix 3).
- 5 Each *PPP* report has identified the scale of detected fraud and the damage it causesⁱ.

The scale and impact of fraud

- Local government fraud involves substantial loss to the public purse. The most recent estimate of the annual loss to local government was £2.1 billion, excluding benefit fraud (Ref.1).
- This almost certainly underestimates the true cost of fraud. For example, it does not include fraud in major services such as education and social care.
- Each pound lost to fraud represents a loss to the public purse and reduces the ability of local government bodies to provide services to people who need them. Fraud is never a victimless crime.

Source: Audit Commission

The changing counter-fraud landscape

6 When the Commission closes, its National Fraud Initiative (NFI) data matching service will transfer to the Cabinet Office. The remaining counter-fraud functions of the Commission will transfer to the new Counter Fraud Centre, launched in July 2014 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

7 The CIPFA Counter Fraud Centre will also publish the next *Fighting Fraud Locally* strategy for local government, following the closure of the National Fraud Authority (NFA) in March 2014. However, there are no arrangements to continue the NFA's *Annual Fraud Indicator*, in particular, which is the annual estimate of the level of fraud committed against local authorities.

ⁱ Audit Commission reports can be obtained through this link: <http://www.audit-commission.gov.uk/information-and-analysis/national-studies/>

8 Other changes include the creation of the National Crime Agency, established in 2014, which has taken over some of the activities previously carried out by the Serious and Organised Crime Agency (SOCA).

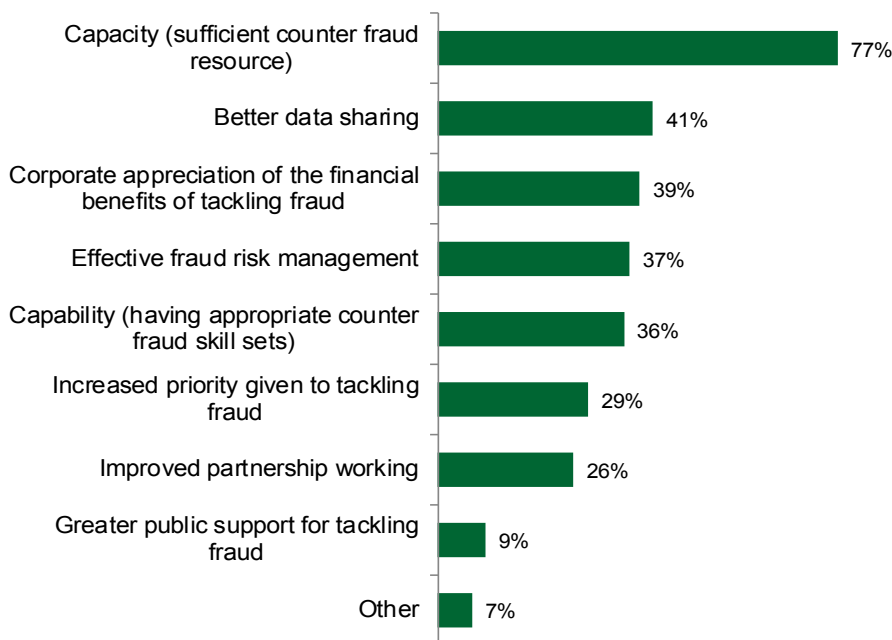
9 For councils, the most important change in their counter-fraud arrangements is the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Work and Pensions (DWP). The transition to the SFIS began in July 2014 and will be complete by March 2016.

10 The Department for Communities and Local Government (DCLG) has awarded £16 million through a challenge fund for two years from 2014. Councils whose bids were successful will receive a share of this fund to support their efforts to refocus their counter-fraud activities on non-benefit fraud during the implementation of the SFIS. Similar funding may not be available to councils in the future.

The main issues councils face in tackling fraud

11 Because of these changes, the 2014 survey asked councils to identify the top three issues they face in tackling fraud. Councils report that the single most important issue is the need to ensure they have enough counter-fraud capacity (Figure 1).

Figure 1: Main issues faced by councils in tackling fraud



Top 3 issues for councils: capacity, data-sharing and corporate recognition of the financial benefits of tackling fraud

Source: Audit Commission (2014)

12 In the survey, councils identified other concerns that indicate a need for a more effective corporate approach to fighting fraud. These include:

- collecting and using data effectively;
- understanding the importance of the financial benefits of fighting fraud;
- the need for effective risk management;
- improving counter-fraud staff skills; and
- partnership working.

13 *PPP 2014* addresses all these issues. Chapter 2 sets out the scale of the fraud they relate to, and how this has changed since 2012/13.

Chapter 2: The latest figures on detected fraud in councils

Local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, the value of losses from detected fraud increased.

14 Each *PPP* report draws on data collected by the Commission's annual survey of detected fraud in local government bodies. *PPP 2014* uses data from the 2014 survey, which covered the 2013/14 financial year.

15 The latest survey achieved a 100 per cent response rate, with responses from 494 local government bodiesⁱ. These results:

- map the volume and value of different types of detected fraud;
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

16 Local government bodies detected fewer frauds in 2013/14 (just over 104,000) compared to the previous year (just under 107,000) (Table 1). The value of fraud detected in 2013/14 increased over the previous year, rising from £178 million to £188 million.

100% of local government bodies surveyed for *PPP 2014* responded

£188 million, of local government fraud detected in 2013/14, the highest value on record

ⁱ All English principal councils, local authorities for parks, waste, transport, fire and rescue, and Police and Crime Commissioners are required to complete the survey.

Table 1: **Cases and value of detected fraud, excluding tenancy fraudⁱ - Change between 2012/13 and 2013/14**

Type of fraud	For detected fraud in 2013/14 (excludes tenancy fraud)	For detected fraud in 2012/13 (excludes tenancy fraud)	Change in detected fraud 2012/13 to 2013/14 (%)
Total fraud			
Total value	£188,249,422	£177,966,950	+6
Number of detected cases	104,132	106,898	-3
Average value per case	£1,808	£1,665	+9
Housing and council tax benefitⁱⁱ			
Total value	£128,973,530	£120,100,854	+7
Number of detected cases	46,690	46,964	-1
Average value per case	£2,762	£2,557	+8
Council tax discounts			
Total value	£16,895,230	£19,567,665	-14
Number of detected cases	49,428	54,094	-9
Average value per case	£342	£362	-6
Other frauds			
Total value	£42,380,662	£38,298,431	+11
Number of detected cases	8,014	5,840	+37
Average value per case	£5,288	£6,558	-19

Source: Audit Commission

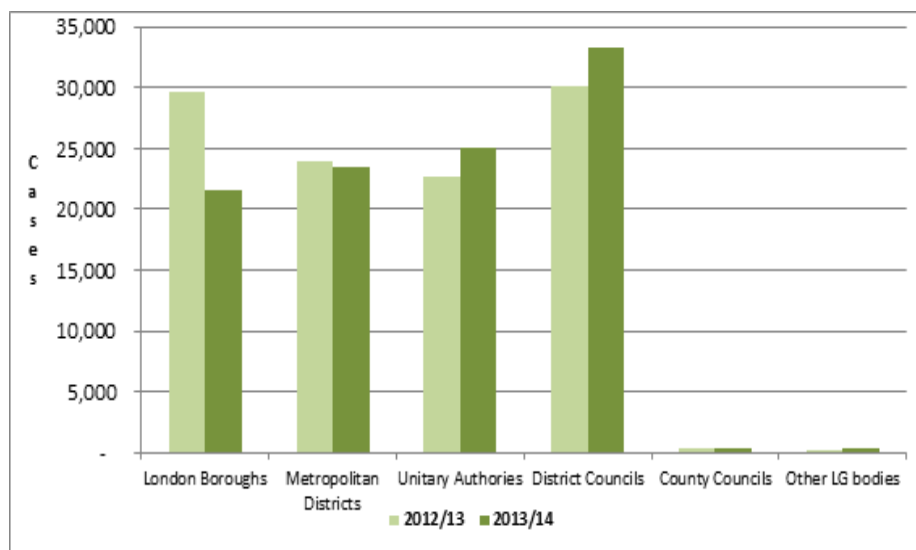
ⁱ We report housing tenancy fraud in Table 3.

ⁱⁱ In April 2013, the government introduced Council Tax Reduction, to replace Council Tax Benefit (CTB). Council Tax Reduction is not a benefit, but to aid year-on-year comparisons, it is included in housing benefit and council tax benefit fraud figures for 2013/14.

17 The 3 per cent reduction in the total number of cases of detected fraud over the previous year was not uniform across councils. It is largely due to falls in London boroughs and metropolitan districts. Unitary authorities and district councils detected more fraud in 2013/14 than the previous year (Figure 2).

Figure 2: **Detected fraud cases**

Comparison by local government organisation 2012/13 and 2013/14

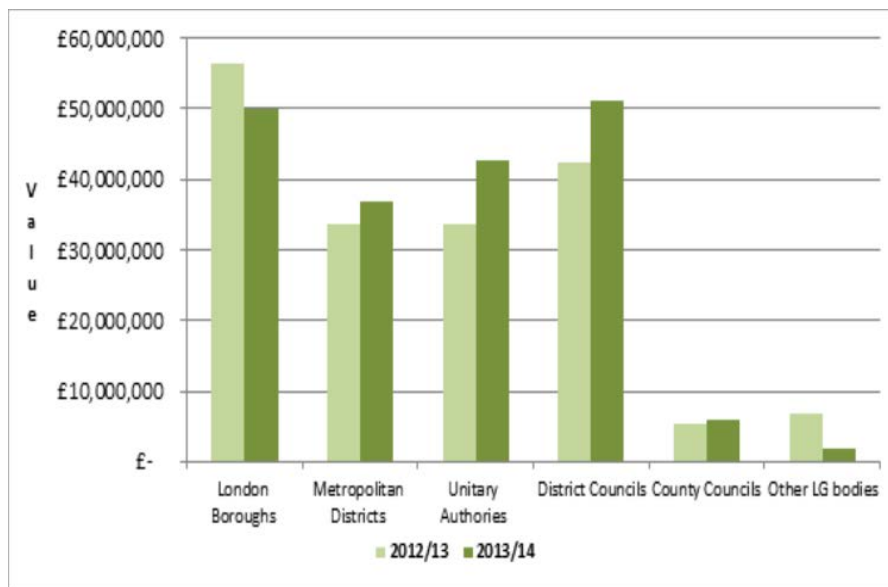


Source: Audit Commission (2014)

18 A similar picture emerges for changes in the value of detected frauds. This has increased by 6 per cent overall, from £178 million to £188 million, but varies across council types (Figure 3).

Figure 3: **Detected fraud by value**

Comparison by local government organisation in 2012/13 and 2013/14



Source: Audit Commission (2014)

19 The value of detected fraud rose in metropolitan district councils, unitary authorities, district councils and county councils compared with the previous year. It fell in London boroughs by 11 per cent.

Benefit fraud

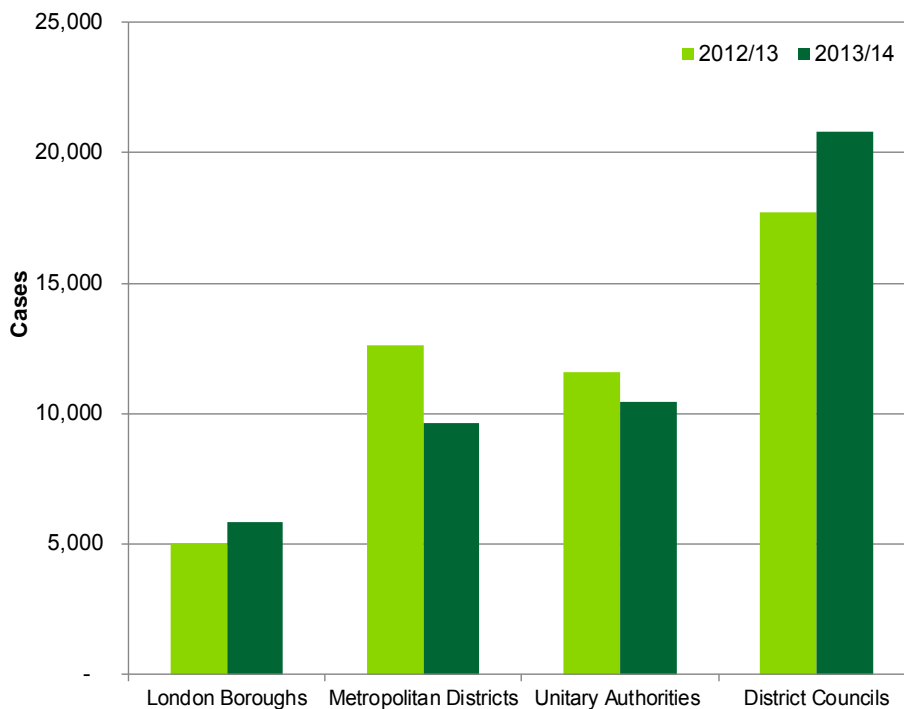
20 In 2013/14, housing benefit and council tax benefit frauds comprised 45 per cent of all fraud cases, but accounted for 69 per cent of the value of all detected frauds.

21 In 2013/14, district councils detected 20,798 benefit fraud cases; an increase of 17 per cent compared to the previous year (Figure 4). They detected not just the highest total overall compared with other councils, but also the highest as a proportion of their benefit caseloads (1.6 per cent). In contrast, London boroughs recorded both the lowest overall number of detected cases of benefit fraud (despite a rise of 16 per cent over the previous year) and the lowest as a proportion of their caseload, at 0.7 per cent.

17% rise
in the number
of cases of
benefit fraud
detected by
district
councils

Figure 4: **Detected benefit fraud cases**

Comparison of council types in 2012/13 and 2013/14



Source: *Audit Commission (2014)*

22 Both metropolitan district councils and unitary authorities reported substantially fewer cases of benefit fraud than the previous year; down 24 per cent and 10 per cent respectively. Each detected around the same proportion of their overall caseload, at 0.9 per cent and 1.0 per cent respectively.

Non-benefit fraud

23 Table 2 highlights the largest frauds in the 'other' group in Table 1, which between them account for £36.5 million of the £188.2 million detected by councils in 2013/14.

Table 2: Other frauds against councils in 2012/13 and 2013/14

Fraud type	Number of cases 2013/14	Value 2013/14 (£ million)	Number of cases 2012/13	Value 2012/13 (£ million)	Change in case number 2012/13 to 2013/14 (%)	Change in case value 2012/13 to 2013/14 (%)
Right to Buy	193	12.4	102	5.9	+89	+110
Social care	438	6.3	200	4.0	+119	+58
Insurance	226	4.8	74	3.0	+205	+60
Procurement	127	4.4	203	1.9	-37	+132
Abuse of position	341	4.0	283	4.5	+20	-11
Disabled parking concessions (Blue Badge)	4,055	2.0	2,901	1.5	+40	+33
Business rates	84	1.2	149	7.2	-44	-83
Payroll	432	1.4	319	2.4	+35	-42

Source: Audit Commission (2014)

24 Care is needed in interpreting these results, as annual percentage changes in value can be affected by a few very costly frauds in either year. For example, the value of business rates fraud fell by 83 per cent, largely because there was an unusually high value (£5 million) single fraud in one council in 2012/13. Procurement fraud is another example of a few costly frauds; cases have fallen by over a third (37 per cent), but their value has more than doubled (132 per cent).

25 Taken together, the number of cases of non-benefit fraud in Table 2 has risen by 39 per cent between the two years, while their overall value has risen by 20 per cent.

26 In 2013/14, the largest non-benefit frauds by value were for:

- Right to Buy – this fraud has seen a marked increase in cases (up 89 per cent) and a more than doubling in value to £12.4 million (up 110 per cent);
- social care – cases have more than doubled to 438 (up 119 per cent) and their value has increased by more than half (58 per cent) to £6.3 million;
- insuranceⁱ – cases have more than tripled (up 205 per cent) and their value has risen by more than half (60 per cent) to £4.8 million; and
- disabled parking (also known as ‘Blue Badge’ fraud) – as in 2012/13, this produces the largest number of “other” cases, and in 2013/14, cases increased by 40 per cent to 4,055 with a value of £2 million.

205%
increase in the
number of
cases of
insurance
fraud for
2013/14 worth
£4.8 million

ⁱ This fraud arises most commonly from members of the public who make false claims for compensation for accidents (known as ‘trips and slips’).

Housing tenancy fraud

27 The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year (Table 3).

Table 3: **Detected tenancy fraud by region**

2012/13 to 2013/14

Region	Number of properties in housing stock (% of national housing stock)	Number of properties recovered in 2013/14	Number of properties recovered in 2012/13	Percentage change in the number of properties recovered 2012/13 to 2013/14
London	419,238 (25)	1,807	1,535	+18
West Midlands	208,740 (12)	425	416	+2
South East	174,313 (10)	129	132	-2
East of England	159,216 (9)	187	133	+41
East Midlands	182,950 (11)	136	102	+33
Yorkshire & the Humber	234,335 (14)	140	108	+30
South West	100,867 (6)	111	56	+98
North East	112,444 (7)	59	34	+74
North West	109,045 (6)	36	126	-71
Total	1,701,148 (100)	3,030	2,642	+15

Source: Audit Commission (2014)

28 All but two regions detected more tenancy frauds in 2013/14 than in the previous year. The exceptions were the North West, where councils detected 71 per cent fewer cases, and the South East, where councils detected slightly fewer cases (down 2 per cent).

Organised and opportunistic fraud

29 The 2013/14 survey asked councils to indicate the extent to which they believed fraud was due to organised criminal activity, rather than to individuals acting alone. The survey used the National Crime Agency definition of organised crime as 'crime planned, coordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain' (Ref. 2).

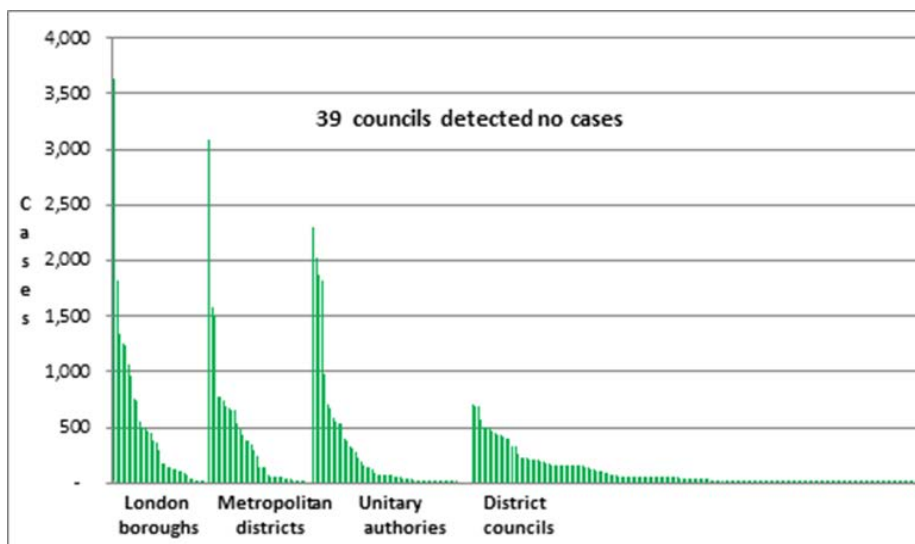
30 Only 32 of 353 councils reported frauds they believed were linked to organised crime. They were most likely to detect the involvement of organised crime in housing benefit (11 councils), which probably reflects the greater number of detected frauds in this category.

31 These results suggest that organised criminals do not commit much fraud against councils. Most local authority fraud investigators believe that opportunistic fraudsters pose the greatest risk. However, there is growing concern about organised criminals tendering for public service contracts, for example, to launder money (Ref. 3, p 55). Councils should be alert to the risk of organised crime and ensure their defences remain appropriate for the task.

Failing to detect fraud

32 In *PPP 2013* (Ref. 4), we reported that 79 district councils had not detected a single non-benefit fraud, compared with only 9 councils among London boroughs, metropolitan districts and unitary authorities combined. In 2013/14, the equivalent figures were 35 district councils 3 unitary authorities and 1 metropolitan district (Figure 5)ⁱ.

Figure 5: Number of detected non-benefit cases by council type (excluding county councils) in 2013/14



Source: Audit Commission (2014)

33 While it is encouraging that the number of councils that did not detect any non-benefit fraud has fallen by half, it remains disappointing that 39 councils failed to detect any non-benefit fraud. 21 district councils and one unitary authority reported no detected non-benefit frauds in both years. Our experience suggests it is extremely unlikely that no non-benefit fraud was committed against them.

34 Year-on-year trends help local government bodies manage current fraud risks. Longer term trends better enable them to understand whether they are matching their resources to risks effectively. Chapter 3 covers fraud detection over the medium to long terms.

39 councils did not report any detected cases of non-benefit fraud in 2013/14, less than half the number of the previous year

ⁱ Figure 5 excludes county councils as they do not provide high-volume services such as council tax.

Chapter 3: Longer term trends in frauds detected by councils

Trends in detected fraud since 1991 show how councils have changed the way they tackle fraud in response to changing national policies and incentives. This chapter draws on the learning from the Commission's 25 years' experience in counter-fraud.

35 This chapter considers trends in detected fraud over the last 25 years, with more detailed information about the last five years from 2009/10 to 2013/14. It also highlights how the Commission's approach to tackling tenancy fraud could be applied in other areas, where risks are growing.

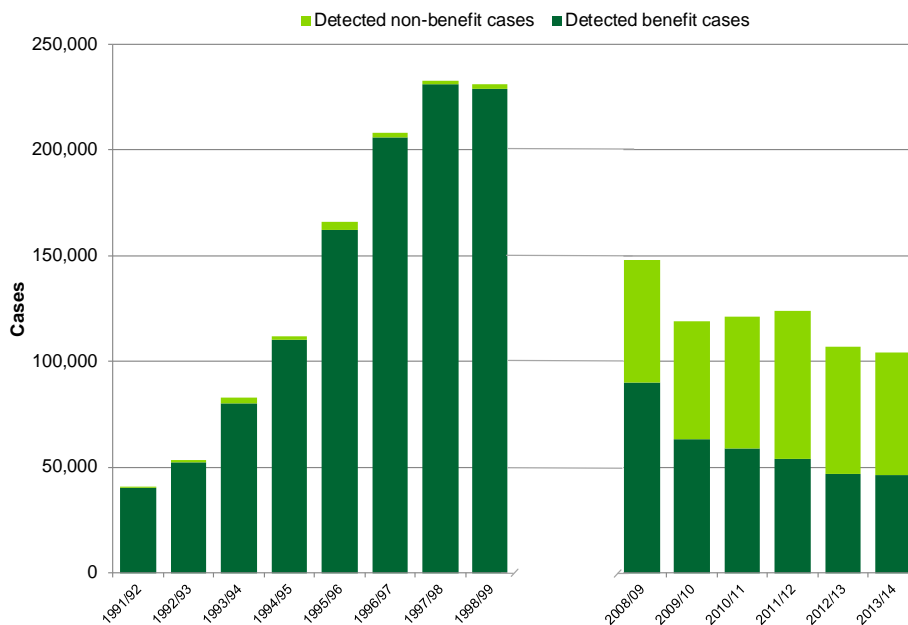
The shift in focus from benefit fraud to non-benefit fraud

36 Between 1991 and 2000, councils prioritised detecting benefit fraud. In 1991, only 2 per cent of cases of detected fraud related to non-benefits. When the *PPP* series restarted in 2009, nearly two in five (39 per cent) of all cases detected were of non-benefit fraud. By 2013/14, this had risen to over half (56 per cent) of all frauds detected (Figure 6)

**In the last
5 years, the
focus has
shifted from
benefit to non-
benefit fraud**

Figure 6: The shift from benefit to non-benefit fraudⁱ

Detected cases 1991/92 to 2013/14



Source: Audit Commission (2014)

37 In 1993, the government introduced Weekly Benefit Savings (WBS), which created an incentive for councils to focus on benefit fraud. WBS ceased in 2002 and its replacement – Security Against Fraud and Error (SAFE) – ended in 2006ⁱⁱ. This removed a direct financial incentive for councils to focus on benefit fraud.

38 The transition to the SFIS in 2016 means, from that year, councils will focus solely on non-benefit fraud. Some councils, particularly small and medium-sized organisations, have traditionally relied on benefit fraud investigators to tackle non-benefit frauds. It is unclear if these councils, and some others, will be able to refocus their efforts and resources on non-benefit frauds once the SFIS is in place.

39 From 2009, *PPP* reports contained information about a wider range of non-benefit frauds than the earlier series, such as fraud detected within procurement or social care. This was to help local government bodies better understand the extent of the risks they face.

ⁱ Data are not available from 1999/2000 to 2007/08 because *PPP* did not operate in this period.

ⁱⁱ Under WBS, councils received funding, or were penalised, depending upon their achieving baseline levels of detected benefit fraud set by the government. Under SAFE, councils received additional funding based on the number of prosecutions and sanctions.

40 Table 4 provides further information about the more recent history of the detected cases and values of these non-benefit frauds. Between 2009/10 and 2013/14, the main findings are that:

- councils have consistently detected more council tax discount fraud than any other type of non-benefit fraud (nearly 50,000 cases in 2013/14);
- council tax discount frauds have the lowest average value of all non-benefit frauds (£342 in 2013/14), but the scale of fraud in this area means they generate the biggest losses – £16.9 million in 2013/14;
- detected Right to Buy fraud cases have substantially increased in the last two years to 193 in 2013/14. Because their average value is over £64,000, they generate substantial losses of £12.4 million in that year;
- the number of detected cases of social care fraud more than trebled over the period to 438. With an average value in 2013/14 of £14,297, they account for £6.3 million in losses;
- the number of detected business rates frauds has fluctuated, rising from only 29 in 2009/10 to 319 in 2011/12 and then declining to 84 in 2013/14ⁱ; and
- the number of detected cases of insurance fraud similarly fluctuated over the last five years, but in 2013/14 councils detected three times as many of these frauds as in 2009/10.

**Right to Buy
fraud cases
increased in
number by
over 400%
between April
2012 and
March 2014**

ⁱ This recent decline is unexpected, especially given the impact of the change in financial incentives from April 2013 for councils to tackle this fraud.

Table 4: Cases and value (adjusted for inflation) of detected non-benefit fraud between 2009/10 and 2013/14

		Council tax discount	Business rates	Right to Buy	Procurement	Insurance	Social care	Economic/ third sector	Blue badge
2013/14	Cases	49,428	84	193	127	226	438	36	4,055
	Value	£16,895,230	£1,220,802	£12,361,858	£4,437,965	£4,776,300	£6,261,930	£741,867	£2,027,500
	Average	£342	£14,533	£64,051	£34,945	£21,134	£14,297	£20,607	£500
2012/13	Cases	54,094	149	102	203	74	200	36	2,901
	Value	£19,905,056	£7,348,809	£5,959,424	£1,910,317	£3,026,996	£4,040,356	£1,299,707	£1,475,510
	Average	£368	£49,321	£58,426	£9,410	£40,905	£20,202	£36,103	£509
2011/12	Cases	60,891	319	38	187	132	122	45	4,809
	Value	£21,338,364	£2,651,726	£1,219,439	£8,297,496	£2,107,680	£2,216,681	£1,808,287	£2,472,366
	Average	£350	£8,313	£32,090	£44,372	£15,967	£18,170	£40,184	£514
2010/11	Cases	56,198	319	49	145	149	102	51	3,007
	Value	£23,599,729	£6,010,804	£1,090,538	£15,314,712	£3,905,680	£2,333,326	£1,361,079	£1,580,820
	Average	£420	£18,843	£22,256	£105,619	£26,213	£22,876	£26,688	£526
2009/10	Cases	48,253	29	34	165	72	131	47	4,097
	Value	£16,412,858	£660,891	£739,881	£2,962,701	£3,077,562	£1,534,013	£968,077	£2,210,152
	Average	£340	£22,789	£21,761	£17,956	£42,744	£11,710	£20,597	£539

41 Councils have to be alert to both the intended and unintended consequences of government policies. Some are directly intended to change local practice, such as the introduction of the SFIS. Others create new services or means of delivery that may produce unintended incentives and opportunities for fraudsters, such as raising the discount threshold for Right to Buy.

42 Central and local government can work together to anticipate and mitigate the risks of fraud created by new policies. This helps councils to adapt their counter-fraud approach to meet both intended and unintended consequences of government policies.

43 Frauds committed in schools and those committed by staff are included in all fraud categories. For this reason, we do not identify them separately in Table 4, but give more information in the following sections.

Internal fraud

44 Since 2009/10, councils have detected broadly similar numbers of internal fraud, although their values have fluctuated. In 2013/14, councils detected nearly 1,500 cases of this type of fraud, generating £8.4 million in losses (Table 5).

£8.4
million of
internal fraud
detected by
councils

Table 5: **Detected cases and values of internal (staff) fraudⁱ**
2009/10 to 2013/14

Financial year		Cases and values (and as a % of total for each)
2013/14	Cases	1,474 (1.4%)
	Value	£8.4m (4.5%)
	Average	£5,750
2012/13	Cases	1,315 (1.2%)
	Value	£16.8m (9.3%)
	Average	£12,751
2011/12	Cases	1,459 (1.2%)
	Value	£15.9m (8.8%)
	Average	£10,917
2010/11	Cases	1,581 (1.3%)
	Value	£20.5m (10.5%)
	Average	£12,969
2009/10	Cases	1,659 (1.4%)
	Value	£8.6m (5.9%)
	Average	£5,207

Source: Audit Commission (2014)

ⁱ Total and average fraud values for years between 2009/10 and 2012/13 are adjusted for inflation using HM Treasury's GDP Deflator. These values will thus differ from those in previous *PPP* reports.

Fraud in maintained schools

45 Schoolsⁱ can be defrauded by those working in them, for example, staff who embezzle school funds, commit payroll fraud, or who claim false expenses. Externally, schools may be victims of procurement fraud and mandate fraudⁱⁱ, among other types.

46 In 2013/14, we report a total of 206 cases of schools fraud worth £2.3 million. This is an 8 per cent increase in cases over the previous year, and a less than 1 per cent increase in value (Table 6).

Councils report a rise of 8% in the value of fraud detected at maintained schools

Table 6: **Detected fraud in maintained schools**

Change from 2012/13 to 2103/14

Fraud in maintained schools	2013/14	2012/13	Percentage change 2012/13 to 2013/14
Total value	£2,330,416	£2,323,856	+1
Number of detected cases	206	191	+8
Average value per case	£11,313	£12,167	-7

Source: Audit Commission (2014)

47 Of these frauds, over half (54 per cent) of cases and nearly two-thirds (62 per cent) of the value involved fraud by staff. These are substantially higher proportions than in other local government services. These findings are similar to those in *PPP 2013*, which suggests that schools may have weaker governance arrangements and less effective controls than larger organisations to detect and prevent fraud.

48 It is important for maintained schools to continue to report the number and value of detected fraud to keep focus on this issue. The Commission would like to see similar transparency across all non-maintained schools to protect the public purse. The risk of fraud in non-maintained schools is becoming more apparent (Ref. 5).

49 The CIPFA Centre for Counter Fraud has recently published good practice guidance on tackling schools fraud (Ref. 6).

ⁱ In our annual fraud survey, we only collect data from maintained schools. Free schools, foundations and academies are outside the Commission's remit.

ⁱⁱ Mandate fraud is where fraudsters divert payments, by deception, from the bank account of legitimate companies into the fraudster's own bank account.

Councils' response to national policies

50 The unintended consequence of some changes in government policy is to make some frauds more attractive to fraudsters. In *PPP 2012*, for example, we suggested that significant increases in the Right to Buy discount implemented in that year is likely to increase the financial incentive to commit fraud in this area.

51 Table 4 shows that councils detected nearly six times as many Right to Buy frauds in 2013/14 as in 2009/10. From April 2012, the government brought in measures to encourage tenants to use the Right to Buy scheme. These included relaxing the qualifying rules and raising the discount threshold, which will rise in line with inflation.

52 These changes encouraged substantially more Right to Buy applications. They also led to more detected frauds. Between April 2012 and March 2014, councils detected 295 cases, a 144 per cent increase over the three years before.

53 Social care provides another example of the effect of national policies. Since 2007, the government has consistently aimed to give people more choice and control over the social care they receive, and to enable them to live independently at home for as long as possible (Ref. 7).

54 The policy of more choice and local control has, however, changed the scale of the fraud risks councils face. Cases of detected social care fraud increased from 131 in 2009/10 to 438 in 2013/14. In 2013/14, however, a majority of all councils except London boroughs did not detect a single social care fraud (Table 7).

Changes in government policy can have unintended consequences

Table 7: **Councils reporting no detected social care fraud in 2013/14**

Council type	Proportion not reporting any detected social care fraud
Unitary authorities	62%
Metropolitan districts	53%
County councils	52%
London boroughs	39%

Source: *Audit Commission (2014)*

55 Councils are detecting more cases of detected fraud in social care (see Table 4). This suggests that the risks of fraud in this service are growing, and also that some councils are taking this risk seriously. If all councils did so, the number of detected cases might rise further.

56 More research is needed to identify the nature and quantify the extent of frauds in education and social care, which together account for 62 per cent of all councils spending in 2012/13 (excluding benefit payments) (Ref. 8, Figure 1, page 2). Similarly, more research would also help councils to quantify the extent of fraud in business rates, for which they collected £21.9 billion in 2012/13 (Ref. 9, Para.1).

57 The increased detection of housing tenancy fraud provides a good example of the benefits greater information and attention brings. Since 2009, tenancy fraud has been a regular focus of *PPP* reports. We believe that councils can apply the learning from our approach to tenancy fraud to new and emerging fraud threats.

Housing tenancy fraud

58 Tenancy fraud is now recognised as the second largest area of annual fraud loss in English local government, valued at £845 million. There is a further £919 million of annual loss to housing associations (Ref. 1).

59 *PPP*'s focus on tenancy fraud shows the benefit of regular reporting on rates of detected fraud, combined with supporting research. This approach has produced more reliable estimates of the extent and value of this type of fraud. It has also challenged myths and misconceptions about tenancy fraud and encouraged organisations to work together to share innovative approaches to tackling it. Similar action would help councils to tackle other types of fraud.

60 Prior to 2009, there was no national estimate of the scale of tenancy fraud, or of the value of a social home recovered from a fraudster, and no regional information on detection. Some social housing providers were reluctant to recognise this type of fraud, on the grounds that as long as the fraudster occupying the property was paying rent, they suffered no financial loss.

61 This encouraged many myths to build up, for example, that tenancy fraud was only a problem in London. This led some councils outside the capital to conclude they did not need to take any action to prevent or detect it.

62 The Commission published the first robust research in the UK that challenged such myths. *PPP* reports contained good practice examples of social housing providers within and outside the capital that had increased cases of detected tenancy fraud.

63 We published a cautious estimate of the extent of tenancy fraud in *PPP 2009* (updated in *PPP 2012*), which is widely accepted across England. Our research was used as the principal evidence base for a new offence specific to tenancy fraud, contained in the Prevention of Social Housing Fraud Act 2013.

At £845 million, tenancy fraud represents the second largest yearly loss to councils from fraud

64 Above all, we worked in partnership with key stakeholders, such as the Chartered Institute of Housing (CIH), the National Fraud Authority and the national Tenancy Fraud Forum, to identify and promote good practice and to encourage councils and housing associations to work together to fight fraud.

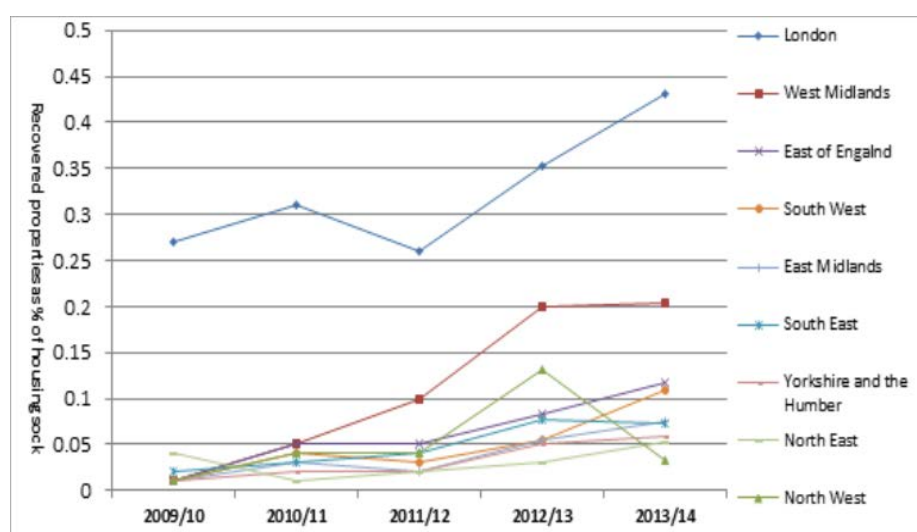
65 We believe that this approach helped to publicise the issues and encouraged social housing providers to combat tenancy fraud more effectively. Between 2009/10 and 2013/14, the total number of detected cases of housing tenancy fraud increased by 92 per cent.

66 The rate of improvement outside London has been substantial: in 2009/10, these councils only recovered 228 properties, but in 2013/14, this had risen to 1,223, an increase of 436 per cent.

67 Between 2009/10 and 2013/14, while the overall trend of recovery increased, the rate of recovery was uneven across regions (Figure 7).

436%
increase in properties recovered, from housing tenancy fraudsters, outside of London in the last five years

Figure 7: Recovered properties as a proportion of council housing stock in each region 2009/10 to 2013/14



Source: Audit Commission (2014)

68 London has consistently detected the most tenancy frauds, measured as a proportion of total housing stock. The North West now detects proportionately the fewest tenancy frauds, which is the result of a decline in the last year. Had councils in this region maintained the same rate of detection as a proportion of their housing stock as in 2012/13, around 90 additional homes would have been available for families on the waiting list.

69 If all councils assigned resources to tackle tenancy fraud proportionate to their total stock, and adopted recognised good practice, then regional detection rates should be broadly similar. The fact they are not suggests that some councils can raise their performance.

70 In 2014, the Chartered Institute of Housing published updated good practice on tackling tenancy fraud (Ref. 10).

71 The Commission reports detection rates by councils and Arm's Length Management Organisations only. Information from housing associations is not universally available. However, as previous *PPP* reports have shown, some housing association partnerships have made good progress.

Case study 1

Tenancy Fraud Forum – partnership working

- The Gloucestershire Tenancy Fraud Forum (GTFF) was formed in 2012 by seven social housing providers in the local area (Cheltenham Borough Homes, Gloucester City Homes, Severn Vale Housing Society, Two Rivers, Rooftop Housing Group, Stroud District Council and Guinness Hermitage). Prior to forming GTFF, individual member organisations detected few tenancy frauds.
- From 2012, GTFF members started sharing good practice, carrying out joint staff training and in particular undertook a local media-based awareness raising campaign. This resulted in a large increase in reports of suspected tenancy fraud.
- Following the campaign, GTFF recovered 107 homes from tenancy fraudsters in 2013/14. To build an equivalent number of homes from new would have cost the public purse over £16 millionⁱ.

Source: Audit Commission (2014)

72 Some innovative housing providers used the launch of the 2013 Prevention of Social Housing Fraud Act as an opportunity to publicise their own tenancy fraud amnesties.

ⁱ In PPP 2011, we calculated the replacement cost of an average social housing unit to be £150,000.

Tenancy fraud amnesties

73 Amnesty can be a useful option for social housing providers to recover properties from tenancy fraudsters. When implemented properly, they can have considerable impact at low cost.

74 In 2013, the London Borough of Camden offered an amnesty lasting two months. In this time, tenancy fraudsters could hand back the keys to properties they had unlawfully occupied or sub-let, without further action taken on cases that were not being prosecuted for other offences. Fraudsters returned seven properties (with a replacement value of over £1 million) to the Council. This represented a good return on the £25,000 spent on publicising the amnesty. LB Camden recovered 103 properties subject to tenancy fraud in total during 2013/14.

75 The publicity had wider benefits. Prior to the campaign, the Council had received just six referrals from the public to its tenancy fraud hotline. In the two months during the campaign, it received 50 calls, with many more in the months that followed. The Council launched a number of investigations as a direct result of the increased hotline referrals and has so far recovered four more properties from these referrals with a further four pending prosecution.

76 The Peabody Housing Association saw similar benefits from an amnesty. In 2012, 40 properties were handed back to the Association. In 2013, it held a two-month amnesty, during which 42 properties with a replacement value of £6.3 million were returned. In the whole year, tenants handed back 130 properties, suggesting the amnesty possibly had a longer term effect.

77 The approach to housing tenancy fraud in *PPP* reports since 2009 illustrates how social housing providers can change their approach to fighting one type of fraud, based on robust information and greater transparency. Adopting a similar approach to other frauds would help them fulfil their duty to protect the public purse, which Chapter 4 explores in more detail.

Tenancy fraud amnesties may have longer term benefits

Chapter 4: Effective stewardship of public funds

A corporate approach to tackling fraud in all areas supports councils to carry out the core functions of effective counter-fraud. This helps them fulfil their role as stewards of public resources, to the benefit of local and national taxpayers.

78 Councils are stewards of public funds and have a duty to protect the public purse from fraud. Better performing councils acknowledge this responsibility and put in place the core components of an effective corporate counter-fraud approach. These are contained in CIPFA guidance (Ref. 11) and the government Fraud Review (Ref. 12) and are:

- prevention and deterrence;
- investigation and detection; and
- sanction and redress (recovery of funds or assets).

79 Councils face a challenge in carrying out these functions as their funding declines. This chapter considers each component in more detail and highlights examples of good practice showing how councils can develop a long-term and sustainable approach to tackling fraud.

Prevention and deterrence

80 Investigating fraud can be expensive for councils. They also incur costs in prosecuting fraudsters and in attempting to recover money, which is not always successful. It is usually more cost-effective to prevent fraud than to take action afterwards.

81 In 2014, we asked over 200 fraud investigators and auditors from English local government how well their councils, or the councils they audit, prevent fraud. They believed that the strongest fraud prevention arrangements were found in housing benefits and council tax discounts, and the weakest in social care and schools.

82 Better performing councils learn from fraud investigations, and address the weaknesses that enabled the fraud to occur. Such councils strengthen fraud prevention arrangements as a result, including deterrence.

83 Some councils may be sceptical about the value of fraud prevention; for this reason, the sector would benefit from an agreed methodology to measure its cost-effectiveness. The government should commission such research.

84 Even where councils obtain no direct financial benefit from preventing frauds, they should still fulfil their duty to protect the public purse by pursuing fraudsters.

Case study 2

Fraud prevention - Right to Buy

- In 2014, Sandwell Metropolitan Borough Council successfully prosecuted two people for a fraudulent Right to Buy application worth nearly £50,000. The fraudsters initially claimed the Right to Buy discount in 2011, making false statements about their eligibility indicating they were sisters and stating they both lived at the address. Their initial claim was refused on the grounds of failing to comply with residency requirement.
- In 2012, the fraudsters again claimed the Right to Buy discount, and again supplied false information about their relationship. The fraud was initially identified through National Fraud Initiative data matches. This enabled the Council to stop the Right to Buy before the sale was processed.
- Subsequent enquiries by the Council established that the fraudulent tenant was falsely claiming benefits, stating that she was resident at other addresses, while still claiming to be a Sandwell resident.
- The fraudsters were found guilty under the Fraud Act and each given a 20 month custodial sentence. This is one of the first successful prosecutions of Right to Buy fraud outside London.

Source: Audit Commission (2014)

85 Councils increasingly use digital technology across services and functions. This reduces costs and can improve service quality, but also brings new fraud risks. Each year we adapt our annual fraud survey to gather new information about emerging fraud risks. The government should encourage the organisation carrying out the survey in the future, CIPFA, to investigate the extent to which fraudsters use digital and on-line technology to defraud local government.

86 Innovative councils also use technology to prevent and detect fraud:

Case study 3

Using technology to prevent fraud

- The London Borough of Southwark increased vetting checks at the point of application for a number of its services, to help protect valuable resources. The London Borough of Southwark is the third largest social landlord in the UK and has a large transient population.
- In 2013, The London Borough of Southwark implemented passport and identity scanners across the council at key customer contact points, including One Stop Shops, Housing Options and the Registrar's office. A mobile scanning system is also used by The London Borough of Southwark anti-fraud services and by council departments conducting specific projects. In total, 6,690 document scans were conducted in 2013/14, with 4 per cent requiring additional checks and verification as result.
- The London Borough of Southwark implemented additional verification checks on the council's waiting list, including veracity of application form information. This has reduced the number of accepted applications by 20 per cent. Additional verification checks have also been conducted on prospective tenants before they collect the keys to the tenancy. This prevented 12 per cent of all such allocations going to fraudsters.

Source: Audit Commission (2014)

87 Councils can deter people from committing fraud if they set out clearly what fraud is and make clear it is likely fraudsters will be caught and punished. Professional fraud investigators believe the prospect of detection is the most powerful deterrent to committing fraud. This supports the need for councils to maintain adequate investigative capacity in a period of financial restraint.

88 It is not currently possible to quantify accurately the financial benefit from deterring fraud. Councils can look to other indicators that may show its impact. The number of households claiming single person discount is one example, first highlighted in *PPP 2013* (Ref. 4).

89 One-third of households in England claim single person discount. Our research (Ref. 13) suggests that typically between 4 per cent and 6 per cent of households claiming single person discount do so fraudulently.

90 Between 2008 and 2013, the number of councils where 40 per cent or more households claimed single person discount reduced from 23 to 7. The council with the highest proportion of households claiming single person discount experienced a reduction in claims from 48 per cent to 41 per cent. One possible explanation for the decline in single person discount claims is the greater publicity from councils about this fraud in recent years.

4% to 6%
**of council tax
single person
discount
claims are
typically
fraudulent**

Investigation and detection

91 Fraud investigators have legal powers to investigate Council Tax Reduction frauds and housing tenancy frauds. The powers do not extend to other fraud types. This restricts their ability to investigate and detect fraud across all services, including social care and procurement. Councils need equivalent powers for all fraud types to protect the public purse effectively.

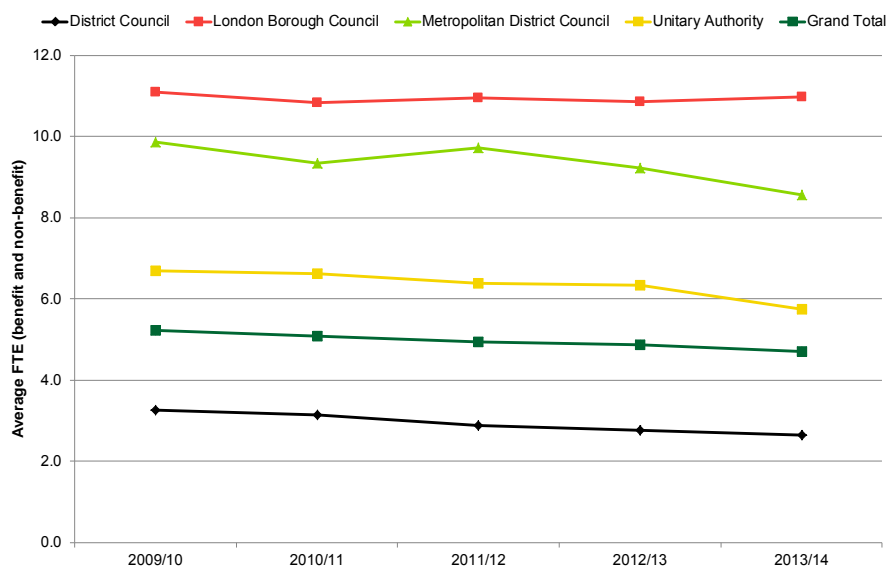
92 Over the past 25 years, councils have substantially increased the number of benefit fraud investigators they employ. Between 1994 and 1997, staff numbers rose from 200 to over 2,000 (Ref. 14). The government encouraged councils to enhance the skills and training of these new staff. In 1998, the DWP launched the Professionalism in Security (PINS) qualification and associated training for benefit fraud investigators.

93 *PPP 2013* (Ref. 4) reported a decline in detected fraud over the previous year; the first such fall since 2009. That report suggested further research to see whether falls in detection were linked with changes in councils' investigative capacity. Since 2010, councils have cut total staff numbers in response to reduced incomeⁱ (Ref. 15).

ⁱ Across the United Kingdom, full-time equivalent staff numbers employed by local government fell from 2,160,000 in 2010 (Quarter 1) to 1,787,000 in 2014 (Quarter 1), a fall of 21 per cent.

94 Between 2009/10 and 2013/14, the mean average number of full-time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent (Figure 8).

Figure 8: Average numbers of FTE fraud investigators, by council type 2009/10 to 2013/14



Source: Audit Commission (2014)

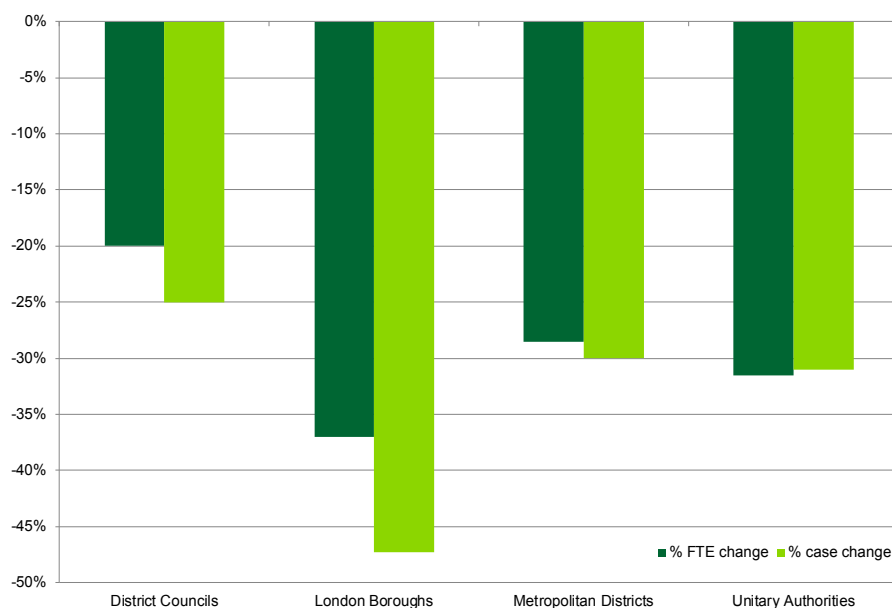
95 London councils employ the most investigators and have seen little change at around 11 FTE staff over the whole five years. District councils have employed the fewest fraud investigators, and have seen their average FTE numbers reduce by 19 per cent, with unitary authorities and metropolitan districts reducing by 14 per cent and 13 per cent respectively.

96 We wanted to investigate whether annual changes in staff numbers are associated with changes in the numbers of reported detected benefit and non-benefit fraud in each year within this period.

97 Not enough councils reported separate staff numbers for non-benefit fraud staff to enable analysis of this type of fraud. For benefit fraud, all council typesⁱ saw a substantial reduction in both FTE staff numbers and detected benefit fraud cases (Figure 9).

Figure 9: **Councils' capacity to detect benefit fraud**

Changes in median benefit fraud FTE numbers and detected benefit fraud cases in 2009/10 and 2013/14



Source: Audit Commission (2014)

98 Taking all councils in the analysis together, the median percentage fall in detected cases of benefit fraud exceeded that for FTE benefit fraud investigators. This was true in all councils except unitary authorities, where the percentage reductions were similar in each category.

99 London boroughs saw the largest reductions, losing nearly two in five (37 per cent) of their benefit fraud investigation staff, and nearly half (45 per cent) of their detected benefit fraud cases over the whole period. It is likely that some of this decline is due to councils in the capital refocusing their fraud investigation resources on non-benefit fraud in preparation for the introduction of the SFIS (Ref. 4, Para. 46).

100 Other councils also saw a substantial decline in their capacity to detect benefit fraud of between 20 and 30 per cent over this period. They also detected between 23 and 31 per cent fewer cases of benefit fraud. These differences are not statistically significant and data are patchy in 2010/11 and 2011/12. However, they indicate a clear decline in both counter-fraud capacity and detection rates between the two years.

Counter fraud capacity and cases of benefit frauds detected both fell between 2009/10 and 2013/14

ⁱ This analysis excludes county councils, which do not administer housing and council tax benefits.

101 Levels of reported detected fraud can only give an indication of the extent of fraud committed against councils. In our experience, the more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may therefore be a positive sign that councils take fraud seriously, rather than evidence of weak counter-fraud controls.

102 It is becoming increasingly urgent for councils to recover losses to fraud. In 2016, the funding to aid councils refocus their activities on non-benefit frauds during the transition to the SFIS will end. Without this money, councils will need alternative means of financing counter-fraud investigation and prevention. Recovery of losses offers one way to do this.

Sanction and redress (recovery of losses)

103 Councils can invoke a range of criminal and civil sanctions against fraudsters. They can impose fines (for example, a £70 fine for fraudulently claiming single person discount), and withdraw benefits, contracts or licences. In some cases, stopping the discount or service provided may be the limit of the action taken.

104 The vast majority of frauds committed against local authorities are never pursued through the criminal courts. There are many frauds against councils (104,132 detected cases in 2013/14). With fewer staff and resources, it is appropriate for councils to follow different courses of action. This is consistent with good stewardship of public funds.

105 Recovering funds lost to fraud can be difficult. Research suggests that, across all sectors of an economy, more than half of all fraud victims do not recover any monies. Fewer than one in ten achieves full financial restitution (Ref. 16).

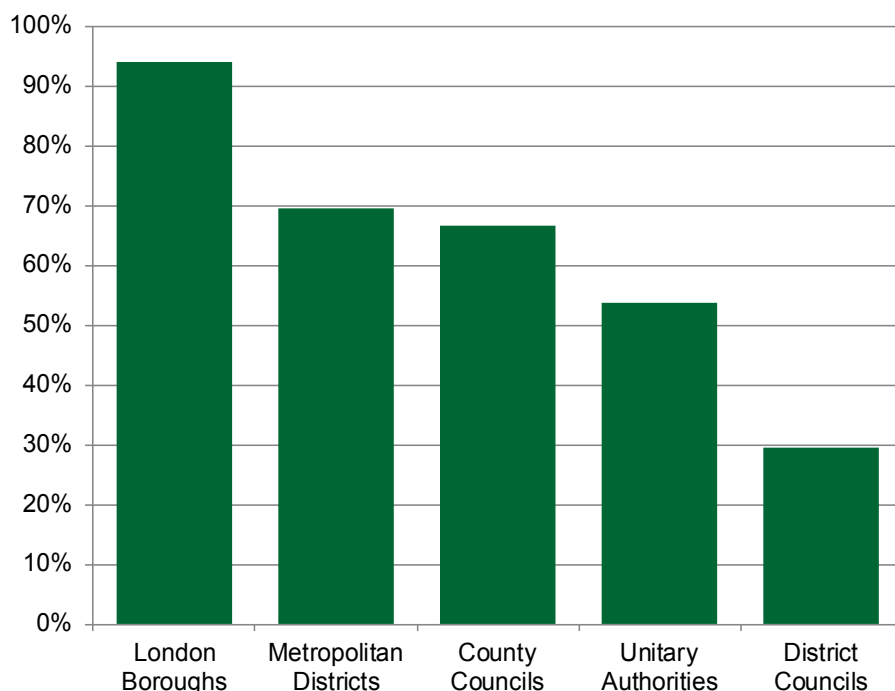
106 Councils can pursue recovery through the civil or criminal courts, but they can consider alternative means to punish fraudsters, deter potential fraudsters and also generate funds to reinvest in tackling fraud.

107 In 2014, the Local Authority Investigating Officers Group (LAIOG) published guidance on estimating potential loss to fraud in specific areas of local authority activity. Councils can utilise this guidance to estimate their own local losses (Ref. 17).

108 Appendix 3 contains case studies that illustrate how councils can use legislation, notably but not solely the Proceeds of Crime Act 2002 (POCA), to recover money from fraudsters.

109 POCA offers one means of recovering fraud losses through criminal law. Around two in five (43 per cent) of councils employ, or have access to, specialist POCA financial investigators to recover money from fraudsters through the courts (Figure 10).

Figure 10: Proportion of councils in 2013/14 with access to POCA financial investigators, by council type



Source: Audit Commission (2014)

110 The proportion of councils in each group with access to financial investigators varies widely. All but two London boroughs use them and most employ their own. In contrast, just over a quarter (28 per cent) of district councils used a financial investigator.

111 Financial investigators have typically focused on trading standard offences and benefit fraud, but they also enable councils to use POCA to recover funds lost to other frauds.

112 For example, in 2014, the financial investigator at the London Borough of Lewishamⁱ used a POCA confiscation hearing to establish the link between social housing fraud and additional costs the Council had incurred in housing homeless people. We had previously identified this link in PPP reports. The court agreed and set a precedent by awarding Lewisham £10,000 per fraudulently sub-let property in this case.

ⁱ This case was undertaken by the financial investigator on behalf of Lewisham Homes, the Arm’s Length Management Organisation (ALMO) that manages the social housing stock for the council.

113 The court's judgement creates case law that will help social housing providers to punish offenders, recover funds and, equally importantly, deter others from committing such frauds in the future.

114 Local authorities should give greater consideration as to how best to use POCA financial investigators, especially in cases where councils incur substantial financial loss.

CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

115 The six key components of effective stewardship of public funds highlighted in this chapter are incorporated within the newly published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (Ref. 18). The Code will be supported by a self-assessment framework. CIPFA also intend to publish good practice guidance. We encourage all public bodies, including local authorities, to assess themselves against this Code.

Chapter 5: Building on *PPP*'s legacy

The Commission's PPP reports have made an important contribution to the fight against public sector fraud. The CIPFA Counter Fraud Centre is well placed to continue this work, and intends to publish future annual PPP reports on the extent of detected fraud in local government.

116 Throughout its existence, the Commission has played an active part in helping public bodies tackle fraud effectively. For example, early *PPP* reports identified low levels of fraud detection in the NHS, which led in part to the creation of the NHS Counter-Fraud Service in 1998 (now NHS Protect). Our research on the scale of tenancy fraud and council tax single person discount fraud has been widely used to support improvements in the response to such fraud.

117 *PPP* reports use the Commission's statutory powers to collect and publish data on local counter-fraud detection. They have changed the way local government bodies and other organisations think about and approach fighting fraud, and achieved a number of important outcomes.

PPP reports raise awareness of the importance of fighting fraud

118 When the Commission resumed *PPP* in 2009, there was little research available on the nature and extent of most types of non-benefit fraud affecting local government bodies. We developed robust estimates, now widely used by national and local government, of the scale of both tenancy fraud and council tax single person discount fraud.

119 Many organisations did not acknowledge that fraud is a problem or understand its scale and impact. *PPP* reports attracted publicity and interest, which help officers and councillors to argue for more effective resources to protect the public purse.

120 Each *PPP* report contain a checklist for those charged with governance to help them understand and assess their risks and performance. The latest version is in Appendix 2. Councils should continue to use this checklist, which is updated annually with each new *PPP* report.

PPP reports promote transparency and accountability

121 The information in *PPP* reports, combined with individual fraud briefings (see paragraphs 126 to 129), help to create greater transparency and accountability in local public services. *PPP* reports have been widely used by audit committees.

PPP reports improve data about fraud

122 Prior to 2009, there was no sector-wide definition, or sub-categorisation, of fraud affecting local government. The annual fraud survey for *PPP* reports foster a common understanding of fraud across local government, and require local government bodies to record the numbers and values of all the frauds they detected.

PPP reports enable local government bodies to benchmark their performance in detecting fraud

123 *PPP* reports contain regional and national data on detection rates and values for all types of benefit and non-benefit frauds. This allows English councils to compare their performance against national, regional and local norms. Understanding fraud detection performance helps local government bodies to adopt a proportionate and effective approach to fighting fraud.

PPP reports promote good practice in fighting fraud

124 Each *PPP* report contains case studies that illustrate the actions local government bodies, often in partnership, take and the outcomes they achieve in fighting fraud. Every year, we work with councils to promote good practice across the sector.

125 All these benefits were possible because the Commission could mandate councils to complete and return the annual questionnaire for the fraud and corruption survey. Going forward, unless the survey is mandated by DCLG, response rates will probably fall. This would reduce the reliability of the survey results.

Fraud briefings

126 In 2013, we published for the first time individually tailored fraud briefings to support external auditors' communication with those responsible for governance at each council, principally locally elected councillors on audit committees. The briefings contained comparative benchmark information on each council's detection results. External auditors could provide these briefings on request and on a confidential basis, to ensure that the information they contained was not available to fraudstersⁱ.

127 All 353 English local authorities were able to receive their fraud briefing, without charge, through a presentation from their external auditor in late 2013 and early 2014. Around three in five councils (62 per cent) received a briefing and presentation, but it is disappointing that many councils did not.

128 We believe these briefings make an important contribution to improving transparency and accountability in local fraud detection performance. Some councils are reluctant to discuss fraud, or unwilling to accept it occurs, which may help to explain why not all councils opted to receive their fraud briefing.

129 In November 2014, we will again make fraud briefings available free to all councils, via their external auditor. We encourage all local authorities to use these fraud briefings to inform their local counter-fraud priorities and strategies.

62% of councils compared their detection levels with their peers, using our tailored fraud briefings

CIPFA Centre for Counter Fraud

130 Fraud risks are constantly changing. New ways of delivering public services, in particular through digital technology, bring new threats. Local government's counter-fraud approach needs to adapt and evolve to meet these new challenges. A key requirement for local bodies is to improve their counter-fraud capability.

ⁱ In 2012, the Audit Commission cited an exemption under section 31(1)(a) of the Freedom of Information (FOI) Act (that disclosure would be likely to prejudice the prevention or detection of crime) to refuse an FOI request for council-specific annual detected fraud survey results. Our concern was that disclosure of the data could prejudice the ability to prevent or detect fraud if any particular authority's track record in this regard were to become public. The Information Commissioner's Office upheld this exemption. It is for individual organisations to seek their own advice and determine their response to any FOI requests.

131 Auditors and fraud investigators already have many of the skills required to provide an effective counter-fraud service. Although some councils use such resources effectively, this is far from universal.

132 From April 2015, the Audit Commission's strategic counter-fraud activities and team will transfer to CIPFA's Counter Fraud Centre. The Centre is a source of expertise and leadership for local government and the wider public sector to help organisations meet challenges in the future.

133 With the support of the new Counter Fraud Centre, the sector can enhance investigative capability, even with fewer staff. The Centre can support measures to improve in several important areas:

- **Continuing to publish *PPP*.** The Centre intend to publish a similar *PPP* report based on an annual survey of detected fraud and corruption in English local authorities.
- **Benchmarking performance.** Benchmarking is critical to understanding how well an organisation performs. The Centre for Counter Fraud intend to continue to publish individual fraud briefings. It will also draw on CIPFA's expertise in comparing data.
- **Professional training.** The Centre will develop and offer professional accredited training for the public sector with specific bespoke focus for local government investigators.
- **Tools and other services.** The Centre will offer e-learning in anti-corruption and whistleblowing, supported by counter-fraud specialists. Other services will include professional networks, thought leadership and fraud alerts.

134 CIPFA does not have the same breadth of powers that the Audit Commission has been able to deploy to support local government, including powers to mandate submission of information on fraud detection results. This could weaken the comparative data used in fraud briefings.

135 We encourage all councils and other public bodies to maximise the potential benefits of participation with the CIPFA Counter Fraud Centre.

136 The Audit Commission leaves a strong legacy in counter-fraud. CIPFA is well placed to continue this work and help local government in its fight against fraud.

Appendix 1: Data tables of detected frauds and losses by region

Table 8: **Detected frauds and losses 2013/14 by region compared to regional spend by councils**

Region	Council spending by region as percentage of total council spending in 2012/13 ⁱ	Regional percentage of the total value of all detected frauds in 2013/14	Regional percentage of the number of all cases of detected frauds in 2013/14
(TOTAL)	(£1111.7 billion)	(£188.3 million)	(104,132)
East of England	10.3	9.9	10.3
East Midlands	7.7	6.4	8.6
London	18.2	27.1	20.8
North-East	5.4	4.1	6.5
North-West	13.6	10.9	8.3
South East	15.0	14.5	15.7
South-West	9.1	9.0	9.6
West Midlands	10.8	9.8	12.5
Yorkshire and Humber	10.1	8.3	7.7

Source: Audit Commission (2014)

ⁱ Regional spending data for 2013/14 are not yet available. However, the proportions of spending in each region do not change much from year to year. For this reason, Table 8 includes 2012/13 spend data as a benchmark against fraud losses and detected cases in 2013/14.

Appendix 2: Checklist for councillors and others responsible for governance

I. General	Yes	No	Previous action	2014 Update
1. Do we have a zero tolerance policy towards fraud?				
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?				
3. Do we have dedicated counter-fraud staff?				
4. Do counter-fraud staff review all the work of our organisation?				
5. Does a councillor have portfolio responsibility for fighting fraud across the council?				
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?				
7. Have we received the latest Audit Commission fraud briefing presentation from our external auditor?				
8. Have we assessed our management of counter-fraud work against good practice?				
9. Do we raise awareness of fraud risks with:				
■ new staff (including agency staff);				
■ existing staff;				
■ elected members; and				
■ our contractors?				

I. General	Yes	No	Previous action	2014 Update
10. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?				
11. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?				
12. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?				
13. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?				
14. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?				
15. Do we have effective arrangements for:				
■ reporting fraud?				
■ recording fraud?				
16. Do we have effective whistle-blowing arrangements. In particular are staff:				
■ aware of our whistle-blowing arrangements?				
■ have confidence in the confidentiality of those arrangements?				
■ confident that any concerns raised will be addressed?				
17. Do we have effective fidelity insurance arrangements?				

II. Fighting fraud with reduced resources	Yes	No	Previous action	2014 Update
18. Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once SFIS has been fully implemented?				
19. Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefit frauds after the SFIS is in place?				
20. If successful, are we using the money effectively?				
III. Current risks and issues	Yes	No	Previous action	2014 Update
Housing tenancy				
21. Do we take proper action to ensure that we only allocate social housing to those who are eligible?				
22. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?				
Procurement				
23. Are we satisfied our procurement controls are working as intended?				
24. Have we reviewed our contract letting procedures in line with best practice?				
Recruitment				
25. Are we satisfied our recruitment procedures				
<ul style="list-style-type: none"> ■ prevent us employing people working under false identities; 				
<ul style="list-style-type: none"> ■ confirm employment references effectively; 				
<ul style="list-style-type: none"> ■ ensure applicants are eligible to work in the UK; and 				
<ul style="list-style-type: none"> ■ require agencies supplying us with staff to undertake the checks that we require? 				

III. Current risks and issues (continued)	Yes	No	Previous action	2014 Update
Personal budgets				
26. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?				
27. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?				
Council tax discount				
28. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?				
Housing benefit				
29. When we tackle housing benefit fraud do we make full use of:				
■ National Fraud Initiative;				
■ Department for Work and Pensions Housing Benefit matching service;				
■ internal data matching; and				
■ private sector data matching?				
IV. Other fraud risks	Yes	No	Previous action	2014 Update
30. Do we have appropriate and proportionate defences against the following fraud risks:				
■ business rates;				
■ Right to Buy				
■ council tax reduction;				
■ schools; and				
■ grants?				

Appendix 3: Case studies: targeting fraudsters, financial recovery (in particular use of POCA)

Case study 4

Recruitment payroll fraud - pension pot recovered (total value £414,415)

- In July 2012, a council successfully prosecuted the Head of their Youth Offending team and several co-conspirators for payroll fraud. In collusion with employees at a recruitment agency, the employee authorised payments for several non-existent temporary agency staff. The fraud was first brought to the attention of the council by a whistleblower.
- The employee was found guilty of conspiracy to defraud the council and sentenced to five years and six months in prison. The co-conspirators were also found guilty and sentenced to four years, two years, and 18 months respectively.
- In 2014, the council was awarded a total of £414,415 in financial restitution from the fraudsters, in part through successful POCA judgements. This included £286,415 recovered from the fraudsters' pension under provisions within the Local Government Pension Scheme.

Source: Audit Commission (2014)

Case study 5

Prevention of Social Housing Fraud Act - unlawful profit order of £31,000

- In early 2014, a predominantly London-based housing association was one of the first social housing providers to gain an Unlawful Profit Order under the Prevention of Social Housing Fraud Act. This allows social landlords to seek a money judgement against their tenant where illegal sub-letting has occurred.
- On a routine visit, a housing officer became suspicious about illegal sub-letting after seeing an unfamiliar person in a property. The officer discovered that the official tenant had lived and worked in Spain for at least the last two and a half years.
- The court ordered the tenant to pay the housing association £31,000, plus costs. The property was recovered and immediately re-let.

Source: Audit Commission (2014)

Case study 6

Procurement fraud and POCA

- In 2014, a council successfully obtained a confiscation order under the Proceeds of Crime Act for £75,000. This related to the amount an employee had been illegally paid to provide confidential contract information.
- The employee's responsibilities included awarding council contracts for ICT equipment. In this role, the employee introduced two new suppliers to the council's approved tender list, subsequently advising them of tender submissions by competing companies. This enabled the two companies concerned to underbid competitive rivals to secure the contracts.
- The fraud was identified as a result of information provided by an anonymous informant.
- The employee was dismissed, subsequently found guilty under the Fraud Act and sentenced to two years imprisonment.

Source: Audit Commission (2014)

Case study 7

Benefit fraud (£43,000), POCA award of nearly £1.2 million

- Over a four-year period a husband and wife made false statements as to their relationship and stole somebody else's identity (to create a non-existent landlord), to fraudulently claim housing benefit worth £43,000 from a council.
- The money claimed was used to finance an extravagant lifestyle, including purchases of two sports cars, expensive watches and nearly £100,000 of musical equipment. Subsequent enquiries by the council's financial investigator established that the husband owned a property abroad worth in excess of £1 million, had further land holdings and several businesses in the UK and abroad, including two money transfer companies. He also had several business and bank accounts.
- The fraudsters pleaded guilty to 19 Fraud Act, Theft Act, perjury and immigration offences. The fraudsters were sentenced to 30 months in prison and 12 months' suspended sentence respectively.
- Using the findings of the financial investigator's enquiries into the financial history of the fraudsters, a subsequent POCA hearing awarded £1,197,000 in a confiscation order, to be paid by the husband. The council is due £497,000 of this award.
- The fraudster husband subsequently paid £11,849 of the amount awarded. In late 2013, he left the UK and is now resident abroad. An arrest warrant has been issued.

Source: Audit Commission (2014)

Recovery of 23 council houses from fraudsters

- In 2011, a council's fraud team uncovered one of the country's biggest ever tenancy fraud cases. Over a three year period, a council employee dealing with homeless people had operated a scheme to process bogus housing applications to fraudulently obtain council homes. Properties were subsequently allocated to the fraudster's family, close associates and later those willing to pay. The fraudster used fake identities, false personal data and fraudulently adjusted housing application forms to make the co-defendants "high priority" for housing.
- The fraud was first identified through National Fraud Initiative data 'Operation Amberhill' matches. Subsequent investigations found a pattern of false documentation being used to obtain social housing. Enquiries with the UK Borders Agency and HMRC established that seven of the properties were allocated to people not legally allowed to be in the UK.
- Council investigators found a pattern where significant one-off payments would be made to the fraudster's bank account. A few days later a property would be allocated to the individual making the payment.
- In total, 23 properties were fraudulently allocated, most of which have already been recovered by the council.
- The fraudster pleaded guilty to transferring criminal property and in January 2014 he was sentenced to four years in prison. The co-defendants, who included the mother and a former wife of the culprit, received suspended sentences ranging from six to eight months, and other penalties including curfews and community service.

Source: Audit Commission (2014)

Case study 9

Benefit fraudster with over 30 bank accounts – POCA confiscation order of £150,000

- In 2011, a council initially identified through data matching that a benefit claimant had two undeclared bank accounts. Further enquiries established the claimant had over 30 such undeclared bank accounts in operation over a ten year period. During that time the claimant had received over £43,000 in benefits. A restraint order was placed on these bank accounts under the Proceeds of Crime Act, to prevent them being used.
- The individual was subsequently found guilty of two counts of benefit fraud under the Social Security Administration Act and received a six month custodial sentence.
- In 2014, a POCA confiscation order of £150,000 was made against the fraudster, of which over £43,000 related to the council for the fraudulent housing benefit payments. These monies have now been paid back by the fraudster.

Source: Audit Commission (2014)

Right to Buy fraud and benefit fraud

- In 2010, a couple applied to purchase their council home under Right to Buy for £185,000, with a discount of £38,000. The purchase was not consistent with their financial circumstances, as they were long term benefit claimants on low income. As part of the council's anti-money laundering policy, enquiries were then made to establish how the property purchase would be financed.
- Enquiries revealed the couple had savings in excess of £30,000, which had not been declared in the course of claiming benefits. The mortgage to fund the purchase was to be £147,000. To obtain the mortgage, one defendant inflated his income and a completely false income was declared for the other, who had not worked for over 15 years.
- In March 2012, the defendants pleaded guilty to benefit fraud offences and money laundering totalling over £10,000. They received a 12 month Community Order, 150 hours unpaid work, an evening curfew and electronic tagging.
- At a subsequent confiscation hearing, the council were awarded over £40,000 in relation to both the Right to Buy and benefit frauds, which has been repaid in full.

Source: Audit Commission (2014)

Housing officer fraudulently sub-letting council house

- In 2010, a council housing officer created false documents, forged signatures and copied confidential council-held information to create the false impression of a voluntary tenancy exchange for two council homes. Instead, the housing officer used the subsequent control over one property (that had supposedly been transferred to a new tenant), to fraudulently sub-let that property for £700 per month.
- The fraud came to the attention of the local authority as a result of an unrelated enquiry by the tenant of the fraudster to the council.
- The original tenant had returned the keys of the property to the council in 2010 and was now living abroad. He had no knowledge of the tenancy exchange, and his signature had been falsified on transfer documents.
- The housing officer was dismissed for gross misconduct, pleaded guilty to two offences of fraud by abuse of position and making and supplying articles for use in fraud. The fraudster was sentenced to two years and ten months' imprisonment.
- In 2014, a POCA confiscation hearing found the fraudster had obtained a lifestyle benefit of over £88,000. As a result, the council was awarded £16,631, representing half of the equity available on the fraudster's own property, which he jointly owned with his wife.

Source: Audit Commission (2014)

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- 8 Audit Commission, Local authority waste management: using data from the value for money profiles, Audit Commission, 2014
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- 14 Warrington, D, Perspectives of who commits housing benefit fraud, University of Portsmouth, 2007
- 15 Office for National Statistics, Public Sector Employment Q1 2014 Table 3, ONS, 2014 (taken from, ONS website: <http://www.ons.gov.uk/ons/datasets-and->

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- 17 Local Authority Investigating Officers Group, Fighting Fraud in the Future, LAIOG, 2014
- 18 Chartered Institute of Public Finance & Accountancy, Code of Fraud Risk Management, CIPFA, 2014

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RESPONSES TO QUESTIONS RAISED AT THE PREVIOUS MEETING

REPORT PRESENTED BY: BUSINESS MANAGER – FINANCIAL SERVICES

1.0 Purpose of Report

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

2.0 What was the outstanding recommendation from the Street Cleansing Audit?

2.1 The recommendation was that a documented procedure was needed for the investigation and prosecution of fly-tippers. The management response was that a working party was preparing a Corporate Enforcement Policy that would incorporate the procedure. The Corporate Enforcement Policy has not yet been approved.

3.0 The Committee would like to see the Council's response to the Audit Commission Consultation on the Draft Code of Audit Practice.

3.1 The consultation response is attached at Appendix A.

4.0 RECOMMENDATION

That Members consider the responses provided.

Background Papers

Nil

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

David Dickinson
Director - Resources

Code of Audit Practice (Draft) - Consultation response form

Overview

In August 2010 the Secretary of State for Communities and Local Government announced the government's plans for the introduction of a new framework for the audit of local public bodies. The Local Audit and Accountability Act 2014 (the Act) provides the legislative basis for the new framework.

The Act makes the Comptroller and Auditor General responsible for the preparation and maintenance of the Code of Audit Practice (the Code) The Code prescribes the framework within which local auditors are to carry out their statutory responsibilities. The auditor's application of the contents of the Code will be influenced by their professional judgement of what is reasonable and appropriate, reflecting the circumstances of individual local public bodies.

Subject to Parliament's approval, the Code will take effect from 1 April 2015 for audit work relating to the 2015-16 financial year onwards. This consultation seeks views and comments on the draft Code of Audit Practice. Following the consultation, we will publish a final Code before the end of 2014 to allow time for consideration by Parliament in early 2015.

This is a public consultation. It is open to anyone with an interest in the draft Code of Audit Practice. **Please respond by 31 October 2014.**

Copies of this response form are available on the NAO's website (www.nao.org.uk/consultation-code-audit-practice). The response form can be completed electronically or printed and completed by hand.

Please email your response to the following address: CodeConsultation@nao.gsi.gov.uk

You can also post responses to us at:

Future of Local Audit Team
National Audit Office
Yellow 5
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 5393

If you need paper copies of the consultation document, the draft Code or the response form please let us know (using the email, phone number or correspondence address above to provide us with your contact details). We will be happy to post copies to you.

Your details

Name:

Nicky Lovely

Organisation:

Newark & Sherwood District Council

Position:

Business Manager Financial Services

Consultation questions

When answering the consultation questions it would be very helpful if you could support your responses with additional explanation and detail. This will help us to understand the basis for your answers and inform our finalisation of the Code.

Please do not feel that you need to respond to all of the consultation questions set out in this document: we welcome brief or partial responses addressing only those issues where you wish to put forward a view.

PREFACE

Question 1 – Is there any further information that you consider should be included within the preface to the Code?

Yes

No

Please add comments to support your answer:

Click here to enter text.

Question 2 – Do you agree that a single code can work well for all the types of audited body that need to be covered?¹

¹ Currently there are three Codes of Audit Practice. The Audit Commission has separate Codes for *local government bodies* and for *NHS bodies*. Monitor produces the *Code of Audit Practice for NHS foundation trusts*.

If not, what would be your preferred alternative?

Yes No

Please add comments to support your answer:

Providing that more detailed guidance relating to the different requirements of different types of bodies is given in a timely manner.

Question 3 – Do you agree that the Code should be struck at a principles-based level, to be supported as required by more detailed guidance to auditors provided by the National Audit Office on behalf of the C&AG?

Yes No

Please add comments to support your answer:

The principles of auditing are not determined by the type of body.

Question 4 – Do you agree with the proposed structure and content of the Code?

Yes No

Please add comments to support your answer:

[Click here to enter text.](#)

Chapter 1 – Status of the Code, application and general principles

Question 5 – Does Chapter One of the draft Code provide a clear description of the status and application of the Code?

If you think it could be improved, please provide details.

Yes No

Please add comments to support your answer:

[Click here to enter text.](#)

Question 6 – Does Chapter One of the draft Code identify the correct general principles?

Please provide details if you think that additional principles are required or if you consider that any of the principles identified in Chapter One are inappropriate.

Yes No

Please add comments to support your answer:

The wording in paragraph 1.16 needs to reflect that if the NAO requests information from local auditors, this should be information that has been obtained within the normal scope of the auditor's work to avoid the imposition of extra work and costs on the audited body.

Chapter 2 – Audit of the annual accounts

Question 7 – Does Chapter Two of the draft Code address clearly the auditor's statutory duties in respect of the audit of annual accounts?

If you think it could be improved, please provide details.

Yes No

Please add comments to support your answer:

Click here to enter text.

Chapter Three – The auditor's work on value-for-money arrangements

Question 8 – Does Chapter Three of the draft Code address clearly the auditor's statutory duties in respect of their work on value-for-money arrangements?

If you think it could be improved, please provide details.

Yes No

Please add comments to support your answer:

Click here to enter text.

Question 9 – Do you agree that the approach set out in Chapter Three of the draft Code is appropriate for auditors of the different types of local public body covered by this Code?

Yes No

Please add comments to support your answer:

Click here to enter text.

Question 10 – Do you agree that the NAO's detailed guidance on how the auditor should approach their work on value-for-money arrangements should focus on key reporting criteria, and, if so, what criteria should these be?

If not, what alternative approach would you propose?

Yes No

Please add comments to support your answer:

[Click here to enter text.](#)

Question 11 (for audited bodies) – How valuable do you find the work carried out each year on value-for-money arrangements?

How might this be improved?

To what extent would you be prepared to pay more in support of a different approach?

Please add comments to support your answer:

As an audited body, we consider the value for money opinion as only the final assurance required by central government. Our internal auditors consider value for money in their work where appropriate. We can also request them to carry out specific detailed value for money assessments which give us more assurance (eg around major projects). We would not be prepared to pay any more for further work to be done by external auditors.

Chapter Four – Reporting the results of the auditor’s work

Question 12– Does Chapter Four of the draft Code address clearly the auditor’s statutory duties in respect of their reporting requirements for the different types of body covered by this Code?

Yes No

Please add comments to support your answer:

[Click here to enter text.](#)

Question 13 – Are there specific aspects of the auditor’s reporting requirements set out in Chapter Four of the draft Code that you consider should be supported by more detailed guidance to auditors? Please provide details of those areas where you consider additional guidance is required.

Yes No

Please add comments to support your answer:

In paragraph 4.3, the third bullet point suggests that auditors can make recommendations at any point during their work. It is impractical for audited bodies to report ad hoc recommendations - a special meeting of those charged with governance would need to be called. It is thought unlikely

that any such recommendations would be of such urgency as to need special consideration and as such, it would be more appropriate to include these only with the expected normal written outputs.

Chapter Five – The auditor’s additional powers and duties

Question 14– Does Chapter Five of the draft Code address clearly the auditor’s use of the additional powers set out in this chapter?

Yes No

Please add comments to support your answer:

Click here to enter text.

Question 15 – Are there specific aspects of the auditor’s additional powers and duties set out in Chapter Five that you consider should be supported by more detailed guidance to auditors? Please provide details of those areas where you consider additional guidance is required.

Please provide details of those areas where you consider additional guidance is required.

Yes No

Please add comments to support your answer:

Click here to enter text.

Chapter Six – Smaller authority assurance engagements

Question 16 – Does Chapter Six of the draft Code address clearly the auditor’s statutory duties in respect of their work on smaller authorities?

Yes No

Please add comments to support your answer:

Click here to enter text.

Schedules, Annex and Glossary

Question 17 – Do you have any comments on the material provided in the Schedules and Annex to the draft Code?

Yes No

Please add comments to support your answer:

In Schedule 1 – the Auditor’s statutory responsibilities in relation to audited bodies other than health service bodies. Under “Reporting” the auditor should “Express a view on whether there are appropriate arrangements in place to achieve economy, efficiency and effectiveness in the use of resources (the VFM opinion).

Question 18 – Do you have any observations on the completeness or accuracy of the Glossary?

Yes

No

Please add comments to support your answer:

Under “Annual Governance Statement” The Annual Governance Statement is not “part of” the annual accounts, but it is expected to be published alongside them.

“Full Audit Authority” and “Principal Body” effectively have the same definition. It would therefore seem sensible to amend the text of the Code to use just one of these terms throughout.

If you have any additional comments on the draft Code, please include these here:

[Click here to enter text.](#)

AUDIT & ACCOUNTS COMMITTEE
11th FEBRUARY 2015

AGENDA ITEM NO.17

WORK PLAN

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
5th November 2014	Treasury Performance half-yearly report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Audit Letter	John Cornett/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
	Initiating the Annual Review of the Effectiveness of the Internal Audit Function	David Dickinson/Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	
21st January 2015	Working Group to carry out Review of the Effectiveness of the Internal Audit Function	Nicky Lovely	
11th February 2015	Treasury Performance Report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Draft Treasury Strategy	Tara Beesley	Gain assurance that risks in relation to the Council's treasury management activities are to be managed in accordance with need and

				the Council's risk appetite
	Internal Audit Progress Report		Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Draft Annual Internal Audit Plan 2014/15		Lucy Pledge/John Sketchley (Audit Lincs)	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	Combined Assurance Report		David Dickinson	Understand the level of assurance for critical systems, due diligence activities, key risks and projects
	External Audit Progress Report		John Cornett/Helen Brookes (KPMG)	Gain assurance that claims and returns are managed appropriately
	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
	Review of significant governance issues highlighted in the Annual Governance Statement		David Dickinson	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Risk Management report		Lisa Lancaster	Gain assurance that appropriate risk management arrangements are in place
	Strategic Risk Register		Lisa Lancaster	Gain assurance that the Council considers its strategic risks and that these are being managed effectively
	Protecting the Public Purse report		Nicky Lovely	Understand the level of fraud in local government and the approach taken to counter it. Enable comparison with the fraud risks facing NSDC
	Responses to questions raised at previous meeting		Nicky Lovely	
	Audit Committee Work Programme		David Dickinson	
8th April 2015	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
	External Audit Certification of Grant Claims and Returns		John Cornett/Helen Brookes (KPMG)	Gain assurance that claims and returns have been managed appropriately
	External Audit Plan for 2014/15 Accounts and VFM Conclusion		John Cornett/Helen Brookes (KPMG)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts and arrangements to achieve 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		David Dickinson	
June 2015	Treasury Management Outturn Report		Tara Beesley	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	Internal Audit Progress Report		Lucy Pledge/John Sketchley (Audit LinCs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Internal Audit Report		Lucy Pledge/John Sketchley (Audit LinCs)	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
	Fraud Risk Assessment		Nicky Lovely	Gain assurance that the Council understands its fraud risks and that actions are in place to address them.
	Knowledge and skills assessment for Committee members		Nicky Lovely	Ensure that the Committee has the appropriate skills

	Responses to questions raised at previous meeting:	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	
TBA	Training session on Statement of Accounts	Nicola Pickavance	Ensure that the Committee has the appropriate skills to be able to review the Council's Statement of Accounts and consider the integrity of financial reporting
September 2015	External Audit Annual Governance Report	John Cornett/Helen Brookes	To gain assurance that the Council's Statement of Accounts are a true and fair representation of the Council's financial performance for the previous financial year and financial standing as at the Balance Sheet date, and that the Council has effective arrangements for achieving Value for Money
	Statement of Accounts & Annual Governance Statement	David Dickinson / Nicola Pickavance	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified, and that arrangements in place support the achievement of the Council's objectives
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Proposals for Future Training for the Committee	Nicky Lovely	
	Responses to questions raised at previous meeting:	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	

November 2015	Treasury Performance half-yearly report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Audit Letter	John Cornett/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
	Initiating the Annual Review of the Effectiveness of the Internal Audit Function	David Dickinson/Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	

