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Tuesday, 17 April 2018

Chairman: Councillor Mrs S Michael

Members of the Committee:

Councillor B Crowe
Councillor Mrs M Dobson
Councillor P Handley
Councillor D Payne
Councillor B Wells

MEETING:	**Audit & Accounts Committee**
DATE:	**Wednesday, 25 April 2018 at 10.00 am**
VENUE:	**Civic Suite, Castle House, Great North Road, Newark, Notts, NG24 1BY**

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 overleaf.

If you have any queries please contact Helen Bayne on Helen.Bayne@newark-sherwooddc.gov.uk.

AGENDA

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

NEWARK AND SHERWOOD DISTRICT COUNCIL

Minutes of the Meeting of **Audit & Accounts Committee** held in the Civic Suite, Castle House, Great North Road, Newark, Notts, NG24 1BY on Wednesday, 7 February 2018 at 10.00 am.

PRESENT: Councillor Mrs S Michael (Chairman)

Councillor B Crowe, Councillor P Handley, Councillor D Payne and Councillor B Wells

APOLOGIES FOR ABSENCE: Councillor Mrs M Dobson

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

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

26 DECLARATION OF ANY INTENTIONS TO RECORD THE MEETING

There were no declarations of intention to record the meeting.

27 MINUTES OF THE PREVIOUS MEETING

Minute 21- Counter Fraud Activity Report- A Member of the Committee requested further information on the identified cases of fraud from 2016/17, as to where these cases had occurred and whether prosecutions had been brought against the perpetrator.

AGREED That the Minutes of the meeting held on November 2017 be approved as a correct record and signed by the Chairman, subject to a minor typographical amendment.

28 DRAFT TREASURY MANAGEMENT STRATEGY 2018/19

The Assistant Business Manager- Financial Services presented the Treasury Management Strategy Statement, incorporating the Borrowing Strategy, Investment Strategy and Prudential Indicators. The Committee noted the economic background and external context, the Council's Borrowing portfolio and associated limits, the Investment Strategy and Counterparty list, and economic forecast from Arlingclose.

In discussion, the Committee considered the impact of an increase in interest rates. The Assistant Business Manager- Financial Services explained that the Council's borrowing was on fixed rates, and an increase in interest rate may benefit the Council by providing greater return on investments.

AGREED (unanimously) that the Committee approves each of the following key elements and recommends these to Full Council on 8th March 2018:

1. The Treasury Management Strategy 2018/19, incorporating the Borrowing Strategy and the Annual Investment Strategy (Appendix A, Section 4 and Section 5);

2. The Treasury Prudential Indicators and Limits for 2017/18 to 2019/20, contained within Appendix A Section 4 and Section 5; and

3. The Authorised Limit Treasury Prudential Indicator contained within Appendix A Section 4.

29 DRAFT CAPITAL STRATEGY 2018/19

The Assistant Business Manager- Financial Services presented the Capital Strategy, which outlined the principles and framework that shaped the Council's capital decisions. The principal aim was to deliver a programme of capital investment that contributed to the achievement of the Council's priorities and objectives as set out in the Corporate Plan. The Strategy defined at the highest level how the capital programme was to be formulated, identified the issues and options that influence capital spending, and set out how the resources and capital programme would be managed within specific prudential indicators. Members' attention was also drawn to the Annual Minimum Revenue Provision Statement 2018/19.

Members considered the Strategy and agreed to an amendment to section eight, to remove the first sentence, and noted an amendment required to the Capital Expenditure and Financing table.

AGREED (unanimously) that the Committee approves each of the following key elements and recommends these to Full Council on 8th March 2018:

1. The Capital Strategy 2018/19 to 2020/21 Appendix A;

2. The Capital Prudential Indicators and Limits for 2018/19 to 2020/21, contained within Appendix A Section 5; and

3. The Minimum Revenue Provision (MRP) Policy Statement as contained within Appendix A Section 6, which sets out the Council's policy on MRP.

30 INTERNAL AUDIT PROGRESS REPORT 2017/18

The Principal Auditor presented the Internal Audit progress report covering the period to 15 January 2018. Two audits reports had been issued - Insurance with high assurance, and Estates Management with limited assurance. There were a further seven audits in draft report stage. The Committee also noted that Strategic Asset Management had been removed from the plan as the service was currently under review and a new Business Manager was being appointed. Funding had also been removed as the client manager who requested it had since left and the Manager felt that the scope of the audit was similar to one carried out recently. The Committee heard that the plan was 60-65% complete.

The Members considered the progress report noting that the draft reports were issued firstly to CMT, for their consideration. This occasionally resulted in a slight delay in the reports coming to the Committee due to the timings of meetings. The Committee also discussed the Estates Management Audit, which had been issued with Limited Assurance. With regard to the Newark BIC, the Committee noted the recommendations and acknowledged that these had been raised with CMT. The Business Manager - Financial Services confirmed that CMT considered the Council's Major Income Streams and the audit had recommended that this include the income from the BIC. The Head of Internal Audit confirmed that the implementation of recommendations would be monitored by Internal Audit, and progress reported to the Audit Committee as part of their regular updates.

Secondly, with regard to Asset Management, the Committee requested that a report be brought to their next meeting detailing the Council's Write-off Policy and the amount of write-offs.

AGREED (unanimously) that the report be noted.

31 ANNUAL INTERNAL AUDIT PLAN 2018/19

The Head of Internal Audit presented the draft Annual Internal Audit Plan for 2018/19. The Plan had 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 Committee noted the inclusion of eight audit days covering Brexit preparation and understanding the risks and opportunities and were in general agreement that these should remain in the plan. Members also discussed the audit process in relation to housing benefit and how the audit process provided overall assurance against benefit fraud. The Business Manager- Financial Services also briefly outlined the counter fraud work undertaken within the public sector and the workshop shortly to be held with Audit Lincolnshire to refresh the Fraud Risk Register and which would then be brought back to the Committee.

AGREED (unanimously) that Members note the content of the report.

32 EXTERNAL CERTIFICATION OF GRANT CLAIMS AND RETURNS 2016/17

Helen Brookes - KPMG was in attendance to present the Annual report on Grants and Returns 2016/17. She reported that there were no recommendations from the work, and the claim was unqualified and no adjustments had been required. The total fee for the work was £11,022. The Certificate was the final part of the Audit process for 2016/17.

AGREED (unanimously) that the Members consider and comment on the external auditors report on the certification of grant claims and returns for 2016/17.

33 RISK MANAGEMENT REPORT

The Safety and Risk Management Officer was in attendance to report to Members on the Council's Risk Management progress and the status of the Council's Strategic Risks. The Council's Risk Management Group met on a quarterly basis and the Risk Management Policy was due to be reviewed in April 2018. It was also noted that Internal Audit were undertaking a programmed audit of the Council's risk management systems.

The Committee also considered the Council's Strategic Risks and the Action Plans in place for each risk. The level of risks were determined by CMT and the Committee noted that the next Annual Strategic Risk Review was due to take place late spring/early summer 2018.

Members considered Strategic Risk 3 - Facilitating Growth. The Safety and Risk Management Officer agreed that this was a very wide ranging risk, however, he explained that each element was supported by a risk assessment with action attached to address the risk. Members heard details of regular meetings regarding the risk, crossing economic regeneration, planning and finance. Members were concerned that due to the wide ranging nature of the risk, it was difficult to reduce the risk target and the Safety and Risk Management Officer agreed to raise the issue with CMT.

AGREED (unanimously) that the report be noted.

34 REVIEW OF SIGNIFICANT INTERNAL CONTROL ISSUES HIGHLIGHTED IN THE ANNUAL GOVERNANCE STATEMENT

The Business Manager - Financial Services presented a report which updated the status of the significant governance issues identified in the Annual Governance Statement, which was approved on 26 July 2017 and formed part of the Council's Statement of Accounts. He reiterated the work undertaken with regard to Counter Fraud with Assurance Lincolnshire.

AGREED (unanimously) that the Committee notes the results of the review of the significant governance issues as identified in the Annual Governance Statement.

35 AUDIT COMMITTEE WORK PROGRAMME

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

AGREED that the Work Programme be noted.

36 DATE OF NEXT MEETING

The Committee agreed a workshop to be held on Wednesday 6 June 2018 to consider the draft accounts.

The date of the next meeting was Wednesday, 25 April 2018, at 10am in Civic 1, Castle House.

Meeting closed at 11.20 am.

Chairman

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AUDIT & ACCOUNTS COMMITTEE
25 APRIL 2018

STATEMENT OF ACCOUNTING POLICIES 2017/2018

1.0 Purpose of Report

1.1 To provide Members with updates made to the Council's accounting policies in relation to the closedown of the 2017/2018 financial year.

2.0 Introduction

2.1 Prior to the completion of the Statement of Accounts for 2017/2018 it is important that Members are given the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies will be applied to the treatment of all transactions that make up the figures in the Statement of Accounts to ensure the accounts present a true and fair view of the financial position of the Council as at 31 March 2018.

2.2 The 2017/2018 Statement of Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code) which is based on International Financial Reporting Standards (IFRS).

3.0 Updates to the Statement

3.1 The 2017/2018 Code introduces clarification on the previous year's changes to IAS 1 Presentation of Financial Statements. The changes do not impact on any policies.

3.2 The Policy for Overheads and Support Services has been removed as the Central Support notion is no longer required for the Statement of Accounts.

3.3 The order of the policies has been reviewed and the policies renumbered to be brought more aligned with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 Guidance Notes. A complete set of the Accounting Policies for 2017/2018 are attached at **Appendix A**.

4.0 RECOMMENDATION

Members approve the amended Statement of Accounting Policies for 2017/2018.

Background Papers

Nil

For further information please contact Andrew Snape on extension 5532.

Sanjiv Kohli
Deputy Chief Executive/Director – Resources and S151 Officer

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NOTES TO THE CORE FINANCIAL STATEMENTS

The values held within the proceeding Notes to the Accounts may vary slightly when compared to the main Statements or other Notes. This is due to amounts being rounded. It is not expected that a difference would be in excess of £2,000 in any single case.

1 ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/2018 financial year and its position at the year-end of 31 March 2018. It has been prepared in accordance with the Code of Practice on Local Council Accounting in the United Kingdom 2017/2018 (the Code) supported by International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified firstly by the revaluation of certain categories of non-current assets, and secondly as regards the valuation of stocks. Accounting policies and estimation techniques have been selected and exercised, having regard to the accounting principles and concepts set out in IAS 8, specifically the qualitative characteristics of financial information:

- Relevance
- Reliability
- Comparability
- Understandibility
- Materiality

and pervasive accounting concepts:

- Accruals
- Going Concern
- Primacy of legislative requirements

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. The Council classifies the following as cash equivalents:

- Overdrawn balances on the Council's bank accounts. Bank overdrafts are an integral part of the Council's cash management and bank balances fluctuate on a regular basis from being positive to overdrawn.
- Short term investments with immediate call back or instant access. Any short term investment which is for a fixed term, regardless of the remaining length of that term, is accounted for as a financial instrument. Interest follows the related investment.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

The preparation of IFRS accounts requires the use and calculation of estimates. It also requires management to exercise its judgement in applying the use of the Council's accounting policies. The areas involved in a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results may differ from these estimates.

1.5 Charges to Revenue for Non-Current Assets

General Fund service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance in the form of the Minimum Revenue Provision (MRP). This charge is based on the Asset Life method of calculation as per the Councils approved MRP Policy, and will commence in the financial year after the asset becomes operational.

1.6 Council Tax and Non-Domestic Rates

The Council is a billing Council and acts as an agent collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors, including government for NDR, and as principals collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund i.e. the Collection Fund for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted. The council is part of a pool arrangement for NDR with its neighbouring Nottinghamshire councils.

Accounting for Council Tax and NDR
The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item through the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the year-end balance in respect of Council Tax and NDR relating to the arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

1.7 Employee Benefits

Benefits Payable During Employment
Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and time in lieu earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary rate applicable at the year end. The accrual is charged to the Surplus/Deficit on Provision of Services but is then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Policy and Finance line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in year, not the amount calculated according to the relevant accounting standards. Through the Movement in Reserve Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-employment Benefits

The Council fully complies with the requirements of IAS 19 Employee Benefits and recognises the cost of retirement benefits in the revenue account when employees earn them rather than when the benefits are eventually paid as pensions.

Employees of the Council are members of the Local Government Pensions Scheme, administered by Nottinghamshire County Council (the pension fund). The scheme provides defined benefits to members (retirement lump sums and pensions), which have been earned by members in the time they worked as employees of the Council.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price.
  - unquoted securities - professional estimate.
  - unitised securities - current bid price.
  - property - market value.

The change in the net pensions liability is analysed into the following components:

Service Cost comprising

- current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the (Surplus)/Deficit on Continuing Operations in the Comprehensive Income and Expenditure Statement as part of Policy and Finance.
- net interest on the net defined benefit liability or asset i.e. net interest expense for the Council – the change during the period in the net defined benefit liability or asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset at the beginning of the period – taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments

Re-measurements comprising

- the return on plan assets – excluding amounts included in net interest on the defined benefit liability or asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Through the Movement in Reserves Statement on the General Fund Balance, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.8 Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period. The Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.9 Financial Instruments

Financial Liabilities
A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council. The Council's financial liabilities comprise:

- long term loans from the Public Works Loan Board
- long term LOBO loans from the money market (Lender Option Borrower Option)
- short term loans from the Council's subsidiary companies and other related companies

Financial liabilities are recognised on the Balance Sheet where the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. The effective annual interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings held by the Council this means the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to (Surplus)/Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The Council's financial assets are all loans and receivables that have fixed or determinable payments but are not quoted in an active market. The Council's loans and receivables comprise:

- cash in hand and bank current accounts
- fixed term deposits with banks
- instant access deposits with banks

Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made, this means the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans under its Enterprise Scheme to help new businesses at less than market rates (soft loans). Where these loans are material. a loss is recorded in the Comprehensive Income and Expenditure Statement in line with statutory guidelines.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance through the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue administrative expenditure.

1.11 Heritage Assets

The Councils Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Assets are recognised and valued in accordance with the policy on Property, Plant and Equipment unless the cost of the valuation is not commensurate with the benefit to the users of the financial statement; in such an instance historical cost (less any accumulated depreciation, amortisation and impairment losses) is used. Valuation is made by an appropriate method and after an appropriate period. Depreciation is not charged on heritage assets which have indefinite lives, however, the value of an asset will be reviewed where there is evidence of impairment and any such impairment will be dealt with in accordance with the non-current asset impairment policy above. Disposals of heritage assets are dealt with in accordance with the non-current asset disposal policy.

1.12 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance through the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.13 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as investments i.e. at cost less any provision for losses.

Newark and Sherwood Homes Ltd is a wholly owned subsidiary of the Council which manages the housing stock, owned by the Council, under an arms' length arrangement and the company's accounts are consolidated with the Council's in accordance with IAS 27.

Active4Today Ltd is a wholly owned subsidiary of the Council which manages the provision of leisure services from the Council's leisure premises and its accounts are consolidated with the Council's in accordance with IAS 27.

Mansfield Crematorium has been recognised as a joint arrangement between Mansfield District Council, Ashfield District Council and Newark and Sherwood District Council. The Council accounts directly for its part of the assets, liabilities, income, expenditure and cash flows held arising from the operations of the crematorium.

1.14 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment

Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance through the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account through the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve through the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.16 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred. Expenditure under the value of £15,000 is treated as de-minimis.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred while assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- Community Assets, Infrastructure and Assets Under Construction – measured at historical cost
- Other Land and Buildings, Vehicles, Plant and Equipment – fair value or, where there is no market based evidence of fair value, depreciated historical cost

Valuation

Assets are included in the Balance Sheet at current value on the basis recommended by CIPFA and in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors (RICS). Non-current assets are classified into the groupings required by the CIPFA Code of Practice on Local Council Accounting.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Community Assets, Infrastructure Assets and Assets Under Construction are held at historical cost and are not revalued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain community assets) and assets that are not yet available for use (ie assets under construction).

Deprecation is calculated on the following bases:

Asset	**Depreciation Method**	**Useful Life in Years**
Council Dwellings	Straight line allocation over the life of the property as estimated by the Valuer	35-50
Other Buildings	Straight line allocation over the life of the property as estimated by the Valuer	20-100
Vehicle, Plant and Equipment	Straight line allocation, taking into account any residual value, over their useful life as advised by a suitably qualified officer	5-10
Infrastructure	Straight line	10-50
Community Assets	Straight line	100
Surplus Assets	Straight line	10-100
Land	No depreciation charged	
Assets Under Construction	No depreciation charged	
Assets Held for Sale	No depreciation charged	
Investment Properties	No depreciation charged	

Where an asset has major components with different estimated useful lives these are depreciated separately. Land and buildings are separate assets and are accounted for separately, even when they are acquired together.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

1.17 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets
A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.18 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

1.19 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer through the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

1.20 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

1.21 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [other financial instruments as applicable] at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair
value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

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AUDIT & ACCOUNTS COMMITTEE
25 APRIL 2018

UNDERLYING PENSION ASSUMPTIONS FOR 2017/2018 STATEMENT OF ACCOUNTS

1.0 Purpose of Report

1.1 To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2017/18 Statement of Accounts.

2.0 Introduction

2.1 IAS 19 - Employee Benefits is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts.

2.2 The basic requirement of IAS 19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

2.3 To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

2.4 The Council will use the calculated costs and the underlying assumptions, based upon the advice of the actuary of the Nottinghamshire County Council Pension Fund, Barnett Waddingham, and the administering authority (Nottinghamshire County Council), in preparing the annual Statement of Accounts.

2.5 A formal actuarial valuation is carried out every three years, the last being as at 31 March 2016. However this valuation is for the financial years going forward from 2017/2018, the figures produced for 31 March 2016 are estimates based on the last full actuarial valuation carried out as at 31 March 2013 rolled forward and allowing for any change in the underlying assumptions.

2.6 All of the figures relating to IAS 19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers' contributions and not the charge calculated in accordance with IAS 19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern.

2.7 The Actuary's report for 2017/2018 was received on 10th April 2018. The Actuary report is attached at appendix A.

3.0 Financial Assumptions

	2017/2018	2016/2017
Pension Increase Rate Public sector pension increases are linked to the Consumer Prices Index (CPI).	2.3%	2.7%
Salary Increase Rate Reflects the expected rate of growth in pensionable pay, allowing for increases over and above inflation, eg career progression	3.8%	4.2%
Discount Rate This allows for the effect of inflation on the liabilities in the scheme.	2.55%	2.7%

4.0 Demographic Assumptions

	2017/2018	2016/2017
Pensioner Mortality Life expectancy from age 65 years This impacts on the length of time pensions are expected to be payable Retiring today Retiring in 20 years	 Male 22.6 Female 25.6 Male 24.8 Female 27.9	 Male 22.5 Female 25.5 Male 24.7 Female 27.8
Additional Assumptions; • Members will exchange half of their commutable pension for cash at retirement; • Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and • The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.		

5.0 Impact in Financial Statements

Assumption	Movement	Impact
Price Inflation	Decrease Increase	Decrease in charge for cost of future pensions Increase in charge for cost of future pensions
Pension Increase Rate	Decrease Increase	Decrease in liabilities Increase in liabilities
Salary Increase Rate	Decrease Increase	Decrease in charge for cost of future pensions Increase in charge for cost of future pensions
Discount Rate	Decrease Increase	Reduction in liabilities Increase in liabilities

6.0 RECOMMENDATION

Members note and approve the assumptions used in the calculation of pension figures for 2017/2018.

Background Papers

Nil

For further information please contact Andrew Snape on extension 5532.

Sanjiv Kohli
Deputy Chief Executive/Director – Resources and S151 Officer

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Newark & Sherwood District Council

Nottinghamshire County Council Pension Fund

Pension accounting disclosure as at 31 March 2018
Prepared in accordance with IAS19

Barnett Waddingham LLP

9 April 2018

Contents

Introduction

We have been instructed by Nottinghamshire County Council, the administering authority to the Nottinghamshire County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to employees of Newark & Sherwood District Council (the Employer) as at 31 March 2018.

This report is addressed to the Employer and its advisers; in particular, this report is likely to be of relevance to the Employer's auditor.

These figures are prepared in accordance with our understanding of International Accounting Standard 19 (IAS19).

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The figures quoted will form the basis of the balance sheet and funding status disclosures to be made by the Employer as at 31 March 2018 in respect of its pension obligations under the LGPS. The projected pension expense calculations for the year to 31 March 2019 may be used for the purpose of any interim financial reporting during the year to 31 March 2019. However, it may subsequently be necessary to adjust these projections following the occurrence of any material events such as curtailments, settlements or the discontinuance of the Employer's participation in the Fund.

Please note we have not made any allowance for IFRIC14 in our calculations. We would be happy to speak to the Employer or their auditor if more information is required.

IAS19 also requires the disclosure of any other employer provided pension benefits which are not paid from the Fund itself: examples include additional pensions paid on retirement under the Discretionary Payment Regulations. We have only valued such additional liabilities, which would not be covered in the formal LGPS valuation, to the extent that they have been notified to us and are as disclosed in the Valuation data section of this report.

Characteristics of defined benefit plans and associated risks

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

The administering authority for the Fund is Nottinghamshire County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, Nottinghamshire County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Investment Strategy Statement. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On the Employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Nottinghamshire County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Nottinghamshire County Council:

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes and the results of the 31 March 2017 IAS19 report which was carried out for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2018;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2016, 31 March 2017 and 31 December 2017, Fund income and expenditure as noted above, and estimated market returns thereafter for the period to 31 March 2018;
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 March 2018; and
- Details of any new early retirements for the period to 31 March 2018 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2016 for members receiving funded benefits, and as at 31 March 2016 for any members receiving unfunded benefits.

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	344	8,119	47
Deferred pensioners	581	1,086	46
Pensioners	578	3,196	72
Unfunded pensioners	115	201	76

The service cost for the year ending 31 March 2018 is calculated using an estimate of the total pensionable payroll during the year. The estimated total pensionable payroll during the year is £8,518,000, as advised by the Employer. The projected service cost for the year ending 31 March 2019 has been calculated using an estimated payroll of £8,462,000, as advised by the Employer.

Scheduled contributions

The table below summarises the minimum employer contributions due from Newark & Sherwood District Council to the Fund over this inter-valuation period. The calculated cost of accrual of future benefits is 14.5% of payroll p.a.

Minimum employer contributions due for the period beginning	1 Apr 2017	1 Apr 2018	1 Apr 2019
Percent of payroll	14.5%	14.5%	14.5%
plus monetary amount (£000s)	1,299	1,330	1,362

Newark & Sherwood District Council may pay further amounts at any time and future periodic contributions, or the timing of contributions may be adjusted on a basis approved by us.

Early retirements

We requested data on any early retirements in respect of the Employer from the administering authority for the year ending 31 March 2018.

We have been notified of one new early retirement during the year which was not allowed for at the previous accounting date. The total annual pension that came into payment was £3,600.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2018 is estimated to be 3%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Newark & Sherwood District Council as at 31 March 2018 is as follows:

Asset breakdown	31 Mar 2018		31 Mar 2017	
	£000s	%	£000s	%
Equities	51,544	66%	54,177	70%
Gilts	1,796	2%	2,368	3%
Other bonds	9,157	12%	4,673	6%
Property	9,847	13%	8,612	11%
Cash	1,549	2%	3,897	5%
Inflation-linked pooled fund	1,939	2%	1,934	2%
Infrastructure	2,558	3%	1,800	2%
Total	**78,390**	**100%**	**77,461**	**100%**

We have estimated the bid values where necessary. Please note that the individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 31 March 2018 is likely to be different from that shown due to estimation techniques.

Based on the above, the Employer's share of the assets of the Fund is approximately 2%.

We received the following information from the administering authority regarding the detail of their assets as at 31 December 2017, representing the percentages of the total Fund held in each asset class (split by those that have a quoted market price in an active market, and those that do not).

Asset breakdown		31 Dec 2017	
		% Quoted	% Unquoted
Fixed Interest Government Securities			
	UK	2.3%	-
Corporate Bonds			
	UK	11.2%	-
	Overseas	0.5%	-
Equities			
	UK	24.7%	0.1%
	Overseas	39.4%	-
Property			
	All	-	12.6%
Others			
	Private Equity	-	1.6%
	Infrastructure	-	3.3%
	Inflation Linked	-	2.5%
	Cash/Temporary Investments	-	2.0%
Total		**78.0%**	**22.0%**

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the administering authority is contacted in the first instance. Please note that as above, no adjustments for presentational purposes have been made to the percentages shown.

Actuarial methods and assumptions

Valuation approach

To assess the value of the Employer's liabilities at 31 March 2018, we have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2018 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2018 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

To calculate the asset share we have rolled forward the assets allocated to the Employer at 31 March 2016 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

The Employer currently participates in the Newark & Sherwood District Council pool with other employers in order to share experience of risks they are exposed to in the Fund. At the 2016 valuation, the deficit for the whole pool was calculated and allocated to each employer in proportion to their value of liabilities. The next reallocation will be carried out at the 2019 valuation, should the Employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of the combined membership of the pool.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		31 Mar 2018	31 Mar 2017
Retiring today			
	Males	22.6	22.5
	Females	25.6	25.5
Retiring in 20 years			
	Males	24.8	24.7
	Females	27.9	27.8

We have also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Financial assumptions

The financial assumptions used to calculate the results are as follows:

Assumptions as at	31 Mar 2018	31 Mar 2017	31 Mar 2016
	% p.a.	% p.a.	% p.a.
Discount rate	2.55%	2.70%	3.60%
Pension increases	2.30%	2.70%	2.30%
Salary increases	3.80%	4.20%	4.10%

These assumptions are set with reference to market conditions at 31 March 2018.

Our estimate of the Employer's past service liability duration is 19 years.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.3% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is a slightly higher deduction than at the last accounting date where we assumed that CPI was 0.9% lower than RPI.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. This is a slightly different assumption from the previous year where salaries were assumed to increase by 1.0% p.a. to 31 March 2020.

Past service costs/gains

Past service costs/gains arise as a result of introduction or withdrawal of, or changes to, member benefits. For example, an award of additional discretionary benefits to a member such as added years by a member would be considered a past service cost.

We are not aware of any additional benefits which were granted over the year ending 31 March 2018.

Curtailments

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand that one former employee became entitled to unreduced early retirement benefits.

The capitalised cost of the additional benefits on IAS19 compliant assumptions is calculated at £64,000. This figure has been included within the service cost in the statement of profit or loss.

Settlements

We are not aware of any liabilities being settled at a cost materially different to the accounting reserve during the year.

Results and disclosures

We estimate that the value of the net liability as at 31 March 2018 is a liability of £68,836,000.

The results of our calculations for the year ended 31 March 2018 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2018;
- Appendix 2 sets out the Statement of profit and loss for the year ended 31 March 2018;
- Appendix 3 details a reconciliation of assets and liabilities during the year;
- Appendix 4 shows a sensitivity analysis on the major assumptions;
- Appendix 5 shows the Re-measurements in other comprehensive income for the year;
- Appendix 6 contains our estimates of the projected profit and loss account costs for the year ending 31 March 2019. Please note that no allowance has been made for the costs of any early retirements or augmentations which may occur over the year and whose additional capitalised costs would be included in the value of liabilities. It is only an estimate so actual experience over the year is likely to differ. We have not provided balance sheet projections on the basis that they will depend upon market conditions and the asset value of the Fund at the end of the following year.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.

Ross Anderson FFA
Actuary

Appendix 1 Statement of financial position as at 31 March 2018

Net pension asset as at	31 Mar 2018	31 Mar 2017	31 Mar 2016
	£000s	£000s	£000s
Present value of the defined benefit obligation	144,173	146,163	118,271
Fair value of Fund assets (bid value)	78,390	77,461	64,490
Deficit / (Surplus)	**65,783**	**68,702**	**53,781**
Present value of unfunded obligation	3,053	3,224	2,907
Unrecognised past service cost	-	-	-
Impact of asset ceiling	-	-	-
Net defined benefit liability / (asset)	**68,836**	**71,926**	**56,688**

Appendix 2 Statement of profit and loss for the year to 31 March 2018

The amounts recognised in the profit and loss statement are:	Year to 31 Mar 2018 £000s	Year to 31 Mar 2017 £000s
Service cost	3,461	2,176
Net interest on the defined liability (asset)	1,906	1,998
Administration expenses	30	23
Total loss (profit)	**5,397**	**4,197**

Appendix 3 Asset and benefit obligation reconciliation for the year to 31 March 2018

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2018 £000s	Year to 31 Mar 2017 £000s
Opening defined benefit obligation	**149,387**	**121,178**
Current service cost	3,397	2,165
Interest cost	3,983	4,294
Change in financial assumptions	(5,790)	30,377
Change in demographic assumptions	-	610
Experience loss/(gain) on defined benefit obligation	-	(5,371)
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(4,203)	(4,260)
Past service costs, including curtailments	64	11
Contributions by Scheme participants and other employers	567	557
Unfunded pension payments	(179)	(174)
Closing defined benefit obligation	**147,226**	**149,387**

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to 31 Mar 2018 £000s	Year to 31 Mar 2017 £000s
Opening fair value of Fund assets	**77,461**	**64,490**
Interest on assets	2,077	2,296
Return on assets less interest	(16)	12,355
Other actuarial gains/(losses)	-	(199)
Administration expenses	(30)	(23)
Contributions by employer including unfunded	2,713	2,419
Contributions by Scheme participants and other employers	567	557
Estimated benefits paid plus unfunded net of transfers in	(4,382)	(4,434)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**78,390**	**77,461**

The total return on the fund assets for the year to 31 March 2018 is £2,061,000.

Appendix 4 **Sensitivity analysis**

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	144,550	147,226	149,953
Projected service cost	3,064	3,139	3,216
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	147,461	147,226	146,992
Projected service cost	3,139	3,139	3,139
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	149,722	147,226	144,775
Projected service cost	3,216	3,139	3,063
Adjustment to life expectancy assumptions	+1 Year	None	- 1 Year
Present value of total obligation	152,887	147,226	141,780
Projected service cost	3,239	3,139	3,042

Appendix 5 Re-measurements in other comprehensive income

Remeasurement of the net assets / (defined liability)	Year to 31 Mar 2018 £000s	Year to 31 Mar 2017 £000s
Return on Fund assets in excess of interest	(16)	12,355
Other actuarial gains/(losses) on assets	-	(199)
Change in financial assumptions	5,790	(30,377)
Change in demographic assumptions	-	(610)
Experience gain/(loss) on defined benefit obligation	-	5,371
Changes in effect of asset ceiling	-	-
Remeasurement of the net assets / (defined liability)	**5,774**	**(13,460)**

Appendix 6 Projected pension expense for the year to 31 March 2019

Projections for the year to 31 March 2019	Year to 31 Mar 2019 £000s
Service cost	3,139
Net interest on the defined liability (asset)	1,721
Administration expenses	30
Total loss (profit)	**4,890**
Employer contributions	2,557

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2018. These projections are based on the assumptions as at 31 March 2018, as described in the main body of this report.

AUDIT & ACCOUNTS COMMITTEE
25 APRIL 2018

UNDERLYING VALUATION ASSUMPTIONS FOR 2017/2018 STATEMENT OF ACCOUNTS

1.0 Purpose of Report

1.1 To provide Members with information regarding the assumptions made by the Valuers in calculating the figures to be reported in the 2017/18 Statement of Accounts, as per the revaluation model approach taken by the Council under IAS 16 (International Accounting Standard 16 – Property, Plant and Equipment).

2.0 Introduction

2.1 IAS 16 – Property, Plant and Equipment is one of the financial reporting standards with which the Council must comply with when producing its annual Statement of Accounts.

2.2 IAS 16 outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost and is then subsequently measured using a revaluation model. Under the revaluation model, the assets are included in the Balance Sheet at current value on the basis recommended by CIPFA and in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors (RICS).

2.3 Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum once every five years.

2.4 The list of assets below is what has been revalued during 2017/18.
Dukeries Leisure Centre;
Castle House and car/lorry parking;
Kelham Hall;
Workshops and shops;
Investment properties;
Council Depots;
Local Housing Office; and
All Council Dwellings.

2.5 The Council's dwelling assets are revalued every year due to the volatility and the group value of the assets nature. Each financial year a desktop review will be undertaken to account for the changes in the valuations, however once every five years a full revaluation will take place on a beacon basis. As this financial year is a full revaluation of the Councils dwelling assets our normal chartered surveyors, Herbert Button and Partners, didn't have the resources to carry out the large scale valuation required. Therefore the Council also appointed Wilks Head & Eve to carry out the large scale valuation on the Council Dwellings.

2.6 Both Herbert Button and Partners and Wilks Head & Eve have produced valuation reports which are attached at Appendix A and B which include the assumptions they have used in their valuations.

3.0 RECOMMENDATION

Members note and approve the assumptions used in the calculation of asset valuation figures for 2017/2018.

Background Papers

Nil

For further information please contact Andrew Snape on extension 5532.

Sanjiv Kohli
Deputy Chief Executive/Director – Resources and S151 Officer

NEWARK & SHERWOOD
DISTRICT COUNCIL

ASSET VALUATION REPORT

2017/18

Commercial and Residential
Chartered Valuation Surveyors

19/21 Main Road
Gedling
Nottingham NG4 3HQ

Herbert Button & Partners

Asset Valuation Certificate General Fund

The values of the following Council-owned assets have been examined by David J Bingham BSc(Est Man) FRICS IRRV(Hons), (RICS Registered Valuer) Principal of Herbert Button & Partners, Chartered Valuation Surveyors of Gedling, Nottingham, in his capacity as an External Valuer to the Council.

This report is in accordance with the RICS Valuation – Professional Standards effective from 1 January 2014 (revised April 2015), as published by the Royal Institution of Chartered Surveyors, in so far as that is consistent with the IFRS based "Code of Practice on Local Authority Accounting, published by the Chartered Institute of Public Finance and Accountancy and also revised in April 2015 and with effect for financial years commencing on or after 1 April 2015. The relevant summary of the review are included on the CD in the “Guidance” folder. Please note that the IFRS Guidance has been updated in 2017 and came into effect July 2017.

It is confirmed by David Bingham that he has no previous material involvement with the properties other than in providing valuations for previous Housing Asset Revaluations and Reviews and providing the certification reports for the General Fund Assets in 2015, 2016 and 2017. In producing this report he was instructed to review the valuations of the Council’s Deputy Asset Manager, who has been in the same post for many years and who has formed a sound and trusted working relationship with the external valuer.

The Client, in the case of this principal report is Newark & Sherwood District Council. It is further confirmed by David Bingham that he has no previous material involvement with the General Fund Asset properties other than in certifying valuations for the previous exercises, as mentioned above. Over the past three years David Bingham has acquired knowledge of all the properties that have been previously valued.

With regard to the Assets listed below initial valuations were carried out by the Deputy Asset Manager, David Best who has full working knowledge of all the properties together with day-to-day responsibility for estate management, lettings and repairs. Mr Best has provided full information of all the properties listed and has fully explained his approach to the valuations together with all the factors that he has considered in arriving at his figures. He has also explained his criteria in considering the factors that lead him to his conclusions in respect of the Impairment Review.

As to the role of the External Valuer in the principal exercise, the RICS is clear in its Statement of Professional Standards that a valuer may quite properly be requested to review all or part of a valuation prepared by another valuer in circumstances that include the following, though the list is not exhaustive:

- assisting the consideration of risk assessment
- providing comment on a published valuation, for instance in a takeover situation, without providing a separate independent valuation
- commenting on valuations produced for use in legal proceedings
- assisting an audit enquiry.

It is important to make a clear distinction between a critical review of a valuation and an audit of a valuation or an independent valuation of a property, asset or liability included in another valuer's report.

In carrying out any review the valuer is expected, by reference to the valuation date and to the facts and circumstances relevant to the asset at the time, to:

• form opinions as to whether the analysis in the work under review is appropriate
• consider whether the opinions and conclusions are credible and
• consider whether the report is appropriate and not misleading.

The review must be undertaken in the context of the requirements applicable to the work under review, and the Valuer must develop and report opinions and conclusions together with the reasons for any disagreement. A member of the RICS must not undertake a critical review of a valuation prepared by another valuer that is intended for disclosure or publication, unless the member is in possession of all the facts and information upon which the first valuer relied.

In this case David Bingham has inspected a representative sample of the properties involved, externally. All the relevant rental and occupational information has been supplied by the Deputy Asset Manager in sufficient detail so as to enable the external valuer to form accurate and justifiable opinions of the values of the assets under review, which are as follows:

Folder:-

		Valuation Date
A)	Dukeries Leisure Centre	1 June 2015
B)	Dukeries Leisure Centre	1 April 2017
C)	Castle House and car/lorry parking	1 September 2017
D)	Kelham Hall	1 April 2017
F)	Workshops and shops	1 April 2017
G)	Investment properties	31 March 2017
H)	Council depots	1 April 2017
I)	Local Housing offices	1 April 2017

Separate appendices in respect of each of the above categories are included with this report on the CD secured inside the rear cover of this report. Each category has its own folder, suitably titled and pdf copies of the Certificates are provided.

For the information of auditors the RICS Valuation – Professional Standards of January 2014 sets out guidance as to the Valuation of Local Authority Assets in UK Appendix 5. The relevant sections of UK appendix 5 are reproduced in the "Guidance" folder on the CD, and the relevant definitions of the various bases of value adopted are set out below. Herbert Button & Partners can also confirm that no local or national indices have been used in the compilation of the various valuations and all figures are consistently assessed using first-principle methodology.

In accordance with paragraph 3 of the UK appendix 5 Fair Value for land and buildings is to be interpreted as the amount that would be paid for the asset in its existing use:

FAIR VALUE - the definition adopted by the International Accounting Standards Board (IASB) in IFRS 13:

"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

This requirement is met by providing a valuation on the basis of Existing Use Value in accordance with RICS UK Valuation Statement 1.3. Existing Use Value is defined as follows:

EXISTING USE VALUE

"The estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its *market value* to differ from that needed to replace the remaining service potential at least cost."

Where there is no active market for the asset being valued – that is, where there is no useful or relevant evidence of recent sales transactions due to the specialised nature of the asset the Depreciated Replacement Cost method was used. Any asset valued as such is subject to the prospect and viability of the continued occupation and use of the asset. DRC is defined by the RICS as:

DEPRECIATED REPLACEMENT COST

"The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation."

INSPECTIONS

As mentioned above the External Valuer has carried out such inspections as enable him to arrive at balanced judgement of the information provided by the Council's Internal Valuer and Deputy Asset Manager, Mr Best. It is our understanding that inspections of each and every of the assets set out in the appendices to this report were not carried out, as the Internal Valuer deemed it not to be practicable nor necessary for this purpose, in view of his continuing knowledge of all the properties and assets.

The External Valuer concurs with this approach, subject to the check inspections he has personally carried out for the purpose of this producing this valuation and certificate.

Signed

David J Bingham BSc(Estate Management) FRICS IRRV (Hons)

Dated 4 April 2018

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WILKS HEAD & EVE
CHARTERED SURVEYORS AND TOWN PLANNERS
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Andrew Snape
Assistant Business Manager
Newark & Sherwood District Council
Castle House
Great North Road
Newark, NG24 1BY

Our ref: GH /8844
gharbord@wilks-head.co.uk

Dear Andrew,

This report concerns Housing Revenue Account (HRA) portfolio valuations carried out for the Authority for accounting purposes and relates to the 2017/18 financial period.

We confirm that this work has been undertaken in an impartial and independent manner and the results have not been influenced by the Authority.

The Valuer has completed the valuation report in accordance with the following guidance relating to asset valuation for capital accounting purposes:

- Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards 2014 (Revised 2015) & RICS Valuation – Global Standards 2017 ('The Standards')
- International Financial Reporting Standards (IFRS)
- Chartered Institute of Public Finance and Accounting Code of Practice on Local Authority Accounting ('The CIPFA Code')
- Department for Communities and Local Government (DCLG) - Stock Valuation for Resource Accounting – Guidance for Valuers – 2016. This sets out the terms of reference and basis of valuation for valuations of this type.

This report has been split into four sections comprising:

- Sections 1 to 4 – Introduction; Purpose of valuation and background; Process and methodology; Valuation assumptions.

We therefore submit our report and valuation certificates.

Yours sincerely,

GSC Harbord MA MRICS IRRV (Hons)
Wilks Head & Eve LLP

VALUATION REPORT

IN RESPECT OF
THE ANNUAL REVALUATION OF HOUSING
AND PROPERTY ASSETS WITHIN
THE HOUSING REVENUE ACCOUNT

NEWARK AND SHERWOOD DISTRICT COUNCIL

2017/18 FINANCIAL PERIOD

Issued On: 13th April 2018

Valuation Date: 31st March 2018

WILKS HEAD & EVE
CHARTERED SURVEYORS AND TOWN PLANNERS

Section One – Introduction

1. Executive summary

This report refers to the valuation of the properties identified by the Authority under the revaluation programme for the 2017/18 financial period.

The valuation of property assets held in the HRA is required by the Local Government and Housing Act 1989 Section 74.

Relevant guidance for valuation of Local Authority Housing Stock is confirmed in a publication issued by the DCLG entitled **'Stock Valuation for Resource Accounting Guidance for 2016**'.

As a consequence, we have re-valued the stock portfolio by adopting this methodology, notably to include the current Vacant Possession Adjustment Factor.

This signed valuation report is the ultimate result of this instruction. Valuation data has also been provided in a digital and summarised format.

All extract or summary data provided for management information should be read in conjunction with the assumptions contained in the CIPFA Code, the Red Book and our Valuation Report.

2. Process

The Valuer and the Authority agreed a process timetable. This included;

- Determination of valuation assumptions
- Data collection
- Inspection protocol
- Valuation and initial reporting date
- Consideration of process and final reporting process
- Contingency timetable for process slippage
- Audit Support methodology and timescales

In this case, it was possible to work with lead officers within the Authority to achieve these process outputs.

Our draft valuation results were forwarded to the Authority in advance of the final report and this allowed a review process between the Authority and the Valuer to take place.

3. Valuation statement

We are of the opinion that as at 31st March 2018, the Gross Valuations of the Councils interest in the properties identified for re-valuation (as per instructions), are as follows:

Vacant Possession Value

- £637,430,000
- (Six hundred and thirty seven million, four hundred and thirty thousand pounds)

EUV-SH Value

- £267,720,600
- (Two hundred and sixty seven million, seven hundred and twenty thousand, six hundred pounds)

It is important to note that the above values reflect the total gross values of a number of properties selected for revaluation by the Authority and may not represent the full values of the overall portfolio(s).

As mentioned above the individual Gross, Residual and Depreciable values are included and provided electronically in excel format and should be read in conjunction with this report.

These individual sheets and summary also include our opinion of Weighted Average Remaining Useful Life.

We certify that this valuation report fulfils the requirements of the RICS and in terms of the application of IFRS Code for your revenue accounting purposes.

Wilks Head & Eve

WILKS HEAD & EVE **G S C HARBORD MA MRICS IRRV (Hons)**

This report was prepared by G S C Harbord MA MRICS IRRV (Hons) subject to internal audit by our other valuation partners: I. R. J. Dewar FRICS FIRRV MCIArB, R. G Messenger BSc FRICS FIRRV MCIArB REV and A. M. Williams Dip BSc (Hon) MRICS FIRRV REV.

Section Two – Purpose of valuation and background

1. Identification and status of the Valuer

The valuations have been carried out by:

- M S Aldis BSc (Hons) MRICS, IRRV (Hons) RICS Registered Valuer, Associate Partner and
- P C Smith BSc (Hons) MRICS, IRRV (Hons), RICS Registered Valuer, Senior Surveyor.

The valuations have been checked by G S C Harbord MA MRICS IRRV (Hons), Partner, who has also prepared the valuation report.

The report was subject to the internal audit by our in house RICS qualified Partners:

- I R J Dewar FRICS FIRRV MCI Arb,
- R G Messenger BSc FRICS FIRRV MCIArb REV,
- G S C Harbord MA MRICS IRRV (Hons)
- A M Williams Dip BSc (Hons) MRICS FIRRV REV.

We confirm that all surveyors involved in the instruction are RICS Registered Valuers have complied with the requirements of PS1.

We also confirm that all surveyors are suitably qualified and experienced for the purposes of the instruction and have sufficient current local and national knowledge of the markets applicable to the assets valued within this report in addition to the necessary skills and understanding to undertake the valuations competently.

2. Identification of the client and other intended users

WH&E have been instructed by Newark and Sherwood District Council to undertake Asset Valuations in respect of their assets.

No other parties other than the client may rely upon the valuation information provided.

3. Purpose of the valuation

Wilks Head & Eve LLP have completed valuations of assets selected for valuation by the Authority as per their relevant program.

These assets are located within the Authorities housing revenue account portfolio.

The valuations supplied have been prepared specifically to meet financial reporting requirements and should not be used in any other context.

Unless otherwise stated, the assumption has been made that the properties valued will continue to be in the occupation of the Authority for the foreseeable future having regard to the prospect and viability of the continuance of that occupation.

4. Date of valuation

Further to the instructions from the client we have agreed to report the valuations at the following valuation date:

- 31st March 2018

5. Extent of investigation

Further to the instructions from the Authority we have inspected approximately 175 assets as part of this exercise.

The inspections were completed between 6th and 13th March.

The Council's Housing Department agreed the nominated beacon properties. Letters were sent out to the nominated beacon tenants asking that our Valuer be allowed to inspect the beacon property on a date and time of day during our inspection period. If a beacon tenant was unavailable or did not want to offer access to our Valuer, contact would have been made in a similar way, to a nominated "secondary" beacon. In the event it was not necessary to rely on the secondary beacons as our inspections were successful.

Assets which require a valuation are inspected at intervals of no more than five years as outlined within section '4.1.2 Accounting requirements' of the CIPFA Code.

6. Sources of information

For the purposes of this report the Valuer has had to rely upon information regarding the properties provided to us by the Authority and the valuations are dependent on the accuracy of the information supplied and / or the assumptions made.

In addition the Valuer has completed additional research in relation to the portfolio from our own records in addition to other third party resources including, Egi, Focus, Rightmove, regional market reports, local agents and BCIS cost data.

If this information proves to be incorrect or inadequate then they could affect the accuracy of the valuations. It is assumed that these floor areas meet the requirements of the RICS professional statement – RICS property measurement which incorporates IPMS.

The Valuer has not inspected all Title Deeds or any Planning Consents, Statutory Notices, licenses or other documents relating to the properties (except where indicated). We cannot therefore comment upon the possible effect of any outstanding Statutory Notices, or any contravention of any statutory requirements, or the effects of the Defective Premises Act (1972).

7. Valuation background

Local Authorities are under a statutory duty to account separately for their housing stock and this information is of value not only to Local Authorities but also to a wide range of potential readers of the accounts, both inside and outside central government. The fact that stock valuations appear in the housing revenue accounts ensures that authorities decisions on resource allocation make resource cost apparent. It is essential that all valuations carried out for the purpose of resource accounting are on a consistent basis.

Following the adoption of IFRS 13 by the UK public sector, from 1st April 2015, the basis of valuation for accounting purposes will be Current Value (CV) measured by the adoption of the special assumption of EUV-SH.

The valuations will be subject to annual reviews and full revaluations. Revaluations may be carried out on a rolling programme, covering different parts of the stock each year, or every five years for the whole stock.

The aim of resource accounts in the housing revenue account is to put local authority housing on a business like footing and to ensure that accounts give a "true and fair view of" the financial position and transactions of the authority. To this end the Valuer has had regard to:

- IFRS (incorporating IFRS 13)
- The CIPFA Code
- The Red Book.

A number of departures from these standards have been adopted to ensure the objectives are met and details of these variations as they affect the valuation of the property are referred to where appropriate.

Valuations have been carried out in accordance with the Red Book except where they are varied by this guidance to reflect the current policy requirements DCLG.

The beacon method is relatively easily implemented being based upon the market valuation of residential dwellings.

The beacon method is used for no other purpose except the special circumstances of the housing revenue account valuation but is an efficient method of arriving at a representative valuation which enables values to be attributed to large numbers of dwellings comprising a local authority's housing.

8. Property classification

Asset valuations are required for all properties held in the HRA. Section 74 of the Local Government and Housing Act 1989 requires that expenditure and income relating to property specified in that section should be accounted for in the HRA. Guidance on the types of property specified is given in DoE circular 8/95. If we considered that a property is being wrongly held in the housing revenue account, the matter has been raised with the chief finance officer.

9. Valuation basis

The Valuer has prepared the valuations in accordance with the Red Book UK Appendix 5 – Valuation of Local Authority Assets.

This appendix outlines the following valuation requirements which have been met within this report.

Property, plant and equipment which would be expected to include most residential housing stock assets, is measured at CV using the EUV-SH assumption, as defined in UKVS 1.12.

The valuation basis for non-housing property which is considered to be used or consumed for the delivery of the housing function, e.g. estate shops, is CV for the asset in Existing Use – this requirement is met by providing a valuation on the basis of Existing Use Value (EUV) in accordance with UKVS 1.2.

These valuation bases represent the service potential of the assets to an Authority and in the case of EUV-SH the delivery of the social housing provider's objectives.

Where housing assets are so specialised because of the construction, arrangement, size or specification of the building that there will be no market for sale to a singular owner-occupier, the valuation approach is Depreciated Replacement Cost (DRC). It is considered there will be few, if any, operational properties within the HRA which warrant a DRC approach but where applicable should be assessed on the gross cost of rebuilding the assets with the same service potential, less an allowance for depreciation and obsolescence to reflect the fact that the existing property is worth less than a new replacement. DRC valuations should be valued in accordance with UKGN 2.

For completeness, the land and building component of the DRC valuation is stated separately in the report, together with an assessment of the remaining life.

Non-housing property, e.g. estate shops - see above, may be classified by the Authority as Investment Property if the purpose of these properties is considered to be the earning of rentals or for capital appreciation, or both, rather than the facilitation of service delivery. In this case the basis of valuation is Fair Value represented by Market Value which will reflect any current leases, current cash flows and any reasonable assumptions about future rental income or outgoings and redevelopment opportunities.

Assets ''Held for Sale'' and "Surplus Assets" are accounted for in accordance with IFRS 5. Such assets are identified and separately accounted for where they meet the strict criteria for the classification as assets. The appropriate basis of valuation from 1st April 2015 is Fair Value as defined in IFRS 13 and in the Red Book at VPS 4 paragraph 7.

Full definitions of EUV, EUV-SH, DRC, FV and CV are defined by the RICS in 'The Standards'.

Except in the case of properties held for sale, no allowance is made for any costs of sale or any liability for taxation, including VAT, which may arise on disposal.

10. Vacant possession adjustment factor

EUV-SH reflects a valuation for a property if it were sold; with sitting tenants enjoying occupation at less than open market rentals and Retail Price Index linked increases; where the tenants have additional rights including the Right to Buy, and where the landlord has additional liabilities including insurance, repair, maintenance and statutory obligations. Therefore it is necessary to adjust the Beacon Value to reach EUV-SH.

The Adjustment Factor measures the difference between private open market rented and socially rented property at a regional level. It is this discount which, when applied to the cumulative total of all beacon values, gives rise to the EUV-SH.

Although a preferred adjustment factor could be derived from a ratio of local authority rents to private sector rents, we have referred to those suggested in the DCLG guidance.

Adjustment Factors for England

Region	**Adjustments Factors 2010**	**Adjustment Factors 2016**
North East	37%	44%
North Wales and Merseyside	35%	40%
Yorkshire and the Humber	31%	41%
East Midlands	34%	42%
West Midlands	34%	40%
Eastern	39%	38%

London	25%	25%
South East	32%	33%
South West	31%	35%

Illustration

The adjustment factor is applied to the total vacant possession valuation based on the beacon valuation. For example, if the vacant possession value of an estate in the West Midlands based on the beacon valuations is £500,000,000, the Existing Use Value – Social Housing is £200,000,000 (i.e. £500,000,000 x 40% = £200,000,000).

11. Shared ownership

Where the Authority own a share of the interest in the property, the value of the equity share must be accounted for in the portfolio valuation. The approach is to value the property based on the beacon value assumptions and calculate the appropriate equity share.

This share should then be adjusted to reflect the occupation at less than market rents by adopting the regional adjustment factor.

Section Three – Process and methodology

1. Valuation criteria

There is no prescriptive approach that authorities must adopt to ensure current values are used in the balance sheet. In this case the following approach has been adopted:

- A full revaluation every five years with desktop reviews in the other four years.

The review part of this process has:

a) Updated the stock numbers to allow for disposals, acquisitions and newly constructed dwellings;
b) Accounted for material movements in value at the asset group level, including impairment;
c) Captured major changes in value of significant asset groups resulting from major refurbishment schemes;
d) Included properties which were originally classed as in the course of development but which were completed by the valuation date.

2. Annual beacon methodology

In order to value the portfolio, it has been necessary to research a number of information sources. These include:

- Sales of directly comparable property which have taken place during the financial year leading up to the valuation date.

- Any changes of income flow for non-residential HRA property, valued by way of investment appraisal methods.

- Information available at a local level showing house price movement, such as Lands Registry, Leading Mortgage Lenders and other records of sales in the locality.

- Regional and National Indices which show general trends that could be used as a basis for the change in value of the portfolio.

Our valuation has taken place at the asset group and archetype level. Each beacon has been re-inspected and reviewed in the light of the valuation evidence that has become available, together with the investment and refurbishment information where this has been made available.

We have considered impairment at this level and in particular “Trigger Events” which may have happened during the year. Wherever possible we have included these factors, if appropriate, in our explanatory notes on impairment.

3. Valuation approach

WH&E have adopted the Beacon approach when valuing the housing stock.

The Authority has considered the selection of distinct Asset Groups within the housing area. These Asset Groups are chosen to reflect the areas in which individual value markets operate. The Authority considers that it is appropriate to consider a series of distinct Asset Groups for valuation purposes. We have verified that this approach is realistic and no further changes have been necessary.

The beacon adopted for each of the property types has assumed vacant possession. In addition we have been able to rely on information provided as to the property assets in each group and the variations in terms of accommodation, improvements and modernisation in each case.

4. Asset group and archetype determination

Even though this document only comprises a revaluation of the portfolio, a simple reference to the valuation methodology required by the DCLG guidelines may be helpful here. It is important that the results of this report are set in the context of these valuation principles.

The approach considers whether the whole portfolio of residential housing stock within the Council's ownership, should be dealt with as a single or multiple Asset Groupings.

In this case, the Housing Department have been very thorough and methodical and have concluded that multiple "Asset Groups" are necessary. This is logical and reflects the local characteristics, on both a geographical and valuation level.

We have also considered if the existing asset groups and archetypes still apply. Wherever appropriate we will have raised this fundamental change with your Authority at officer level prior to reporting and will have revalued on the agreed and revised basis.

The valuation methodology then requires the Valuer to consider each different type of property within this "Asset Group". Similar properties are subdivided from the "Asset Group" to form "Archetypes". In some cases, the subdivision may be to a very specific level. In this case the divisions are based on the way the Authority defines its portfolio for operational and allocation purposes.

For each of the archetype groups, we have inspected a "beacon" property as a representative example of that property type, and used this as the sample with which to value the Archetype group, with additions or subtractions for each individual property, depending on the information available to us.

5. Valuation commentary

Our valuation has accorded with the relevant guidance notes in all respects; however we believe that a number of specific value sensitive issues ought to be brought to your attention as notes within this report.

We briefly summarise these areas below:-

- It has been made aware to us that in other Housing Revenue Accounts, certain stock, particularly in multi-story accommodation or where common access ways or facilities bound or form part of the structure of assets held by the HRA that where inadvertent, or indeed notified, breaches of covenants, or variation in use or changes to originally specified finishes, fittings or other equipment broke particular fire, health and safety or other statutory regulations, that this may well have an extremely significant effect on value and indeed on a practical level continued habitation of residential accommodation in the short and longer terms.

- In this case, as independent external Valuers, we have not been notified of any such breach, and our inspections did not constitute a survey for such breaches. The information on housing stock within the Housing Revenue Account contained certain designations as to property type. As independent external values we have applied our beacon valuation approach to those categorisations and have not sought to extend or sub-divide these property types into further categories in any way.

- You will be aware that the "Vacant Possession Adjustment Factor" may not have been applied to the whole of your asset stock. Often the residents of sheltered accommodation do not enjoy the same level of tenure, renewal rights or, indeed have "Right to Buy" qualification.

- We are aware that your non-residential HRA portfolio may include many assets related to your operational portfolio. (We firmly contend, however, that the value of many minor assets is reflected in the value of the portfolio). As an example, you may hold a parcel of "Amenity Land" located on a housing development. It would not be held by the HRA save for the presence of your other land holdings and is retained as a consequence of those other assets. We firmly consider that an asset of this type is ancillary to the portfolio and its value reflected in the portfolio valuations. In addition the *de minimis* level of value removes a large number of assets which as a consequence are not reported here.

These issues have been agreed with the Authority and our valuation report reflects these assumptions.

6. Impairment

Impairment occurs because something has happened to the fixed assets themselves or to the economic environment in which the fixed assets are operated.

This may include:-

(a) a significant decline in the demand for social housing;
(b) evidence of obsolescence or physical damage to the asset;
(c) an adverse change in the statutory or regulatory environment in which the Authority operates;
(d) a commitment to significant housing re-organisation by the Authority;

In valuation terms, we also feel compelled to inform and consider any value significant factors, particularly in this case where the portfolio has been valued over a year after the valuation date.

We have reported these separately for the portfolio.

7. Market uncertainty

However for this report it is worth noting that following the EU referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit.

We are now in a period of uncertainty in relation to many factors that impact the property investment and letting markets. Since the referendum date it has not been possible to gauge the effect of this decision by reference to transactions in the marketplace. The probability of our opinion of value exactly coinciding with the price achieved, were there to be a sale, has reduced.

We would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to affect a disposal.

8. Componentisation

The fundamental objective of depreciation is to reflect, in the revenue account, the cost of using the asset i.e. in this case, the amount consumed in providing the service of social housing. This cost of use includes the wearing out, using up or other reduction in the economic life of a tangible fixed asset. This may arise through use, the passage of time or obsolescence or through changes in technology or demand for the goods and services produced by the asset.

In accordance with the Code of Practice on Local Authority Accounting, depreciation should be provided for on all fixed assets with a finite useful life. Subsequent expenditure that maintains or enhances the previously assessed standard of performance of an asset does not negate the need for depreciation. Enhancements will also depreciate and their consumption over time should be reflected in the revenue account.

Since the adoption of IFRS in 2010 it is clear that component accounting should be applied and this approach should apply to accounting within the Housing Revenue Account as far as possible.

IAS 16 paragraphs 43-47 require that each part of an item of PP&E with a cost that is significant in relation to the total cost of the item, and with a significantly different useful economic life, should be depreciated separately, but those with the same useful lives and depreciation methods may be grouped for depreciation purposes.

In deciding the degree to which a structure should be broken down into its component parts for depreciation purposes, the matter of materiality, i.e. the extent to which the additional componentisation will impact on the actual depreciation charge, needs to be considered. If the impact is minimal then the extra work involved in breaking down the structure into 10 or 20 component parts is unlikely to be justified. The Department's view, in discussion with CIPFA, is that it should be possible for a fairly pragmatic approach to be taken. CIPFA have issued LAAP Bulletin 86 Componentisation of Property, Plant and Equipment, June 2010 with a further update in February 2015.

The Department for Communities and Local Government does not envisage that this need be an onerous task, and expects that for non-specialised buildings minimal componentisation should be required. However, it is for the individual local authority to decide what its material components are. Traditionally (i.e. pre International Financial Reporting Standards UKGAAP) the minimum requirement has been for the building itself.

In this case, and further to discussions with the Authority, we have not provided any componentisation information for the authority as part of this exercise.

9. Audit support

We expect that as part of the valuation process, we will be required to provide certain additional explanation and assistance to the Authority where the process will be subject to audit.

10. Additional comments

It may be that a further report is necessary to reflect any in year changes to the portfolio to ensure that the figures are appropriate for the final day of the accounting period, 31st March 2018.

Where appropriate and where instructed, we have agreed to provide a Market Review document providing valuation movement up to the 31st March 2018, the final day of the accounting period.

This Market Review document will be issued as a supplementary valuation document to the Authority.

Section Four – Valuation Assumptions

1. Special assumptions

We are not aware of any special assumptions.

2. Valuation assumptions

The accuracy of the beacon valuation together with the choice of beacon is a major factor governing the quality of the overall housing stock asset valuation.

The beacon valuations assume that the property is vacant and that the current future use is for residential accommodation, with no potential residential redevelopment of the site, or intensification of use as a result of possible sub-division or extension of the property. No account is taken of any other alternative development potential that may include demolition and merging of sites.

These assumptions have been adopted to ensure that all the beacon valuations are prepared on a consistent basis. The beacon valuations are, in the majority of cases, applied to council housing stock which for the foreseeable future will remain as council housing with no requirement for demolition and redevelopment. To include elements of 'Hope Value' attributable to the possibility of redevelopment of the existing buildings within the existing planning use would include elements of value inappropriate to the groups of property valued by the beacon.

Situations where it is inappropriate to make the assumption that the property will remain tenanted for the foreseeable future are dealt with separately. These situations may arise in areas of low demand and unpopular housing.

The assumptions to make in preparing the beacon valuation are set out below. EUV as defined in the Red Book at UKVS 1.12 provides the basic assumptions for the beacon valuation but with additional assumptions to meet the needs of a local authority housing stock asset valuation.

EUV-SH is the estimated amount for which a property should exchange, in the valuation date, between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion, subject to the following special assumptions that the property will continue to be let by a body pursuant to delivery of a service for the existing use:

(a) At the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to an organisation intending to manage their housing stock in accordance with the regulatory body's requirements;

(b) Properties temporarily vacant pending re-letting would be valued, if there is letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession and;
(c) Any subsequent sale would be subject to all of the above special assumptions.

For leasehold properties IFRS introduced significant changes to the treatment of leased assets for capital accounting purposes. Currently the standard adopted is IAS 17.
In summary these classifications will require the following valuations.

i. Lessee of Operating Lease – no value required as not captured on the balance sheet.

ii. Lessor of Operating Lease – usually accounted for as an Investment Property (IAS 40).

iii. Lessee of Finance Lease – CV of the lease interest (which is not the value of the legal interest in the lease but the underlying freehold existing use value of the property as if owned as risks and rewards of ownership are considered to have transferred).

iv. Lessor of Finance Lease – no figure normally required from the Valuer.

3. Other assumptions

- Planning Proposals
  - We have not made formal written enquiries of the Local Authority Planning Departments to ascertain if there are any adverse proposals likely to affect specific properties. We are instructed, however, that for the purposes of this Valuation Certificate, we should assume that there are no planning proposals that are likely to have an effect on the value of the properties unless these were specifically notified to us.

- Construction and State of Repair
  - Structural / Condition surveys have not been undertaken of the properties nor have the service installations been tested.

  - We have not carried out a structural survey nor have we inspected those parts of the properties that are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.

  - No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.

- Unless we are aware that a specific property has a limited economic life, we have assumed that the assets are at a suitable level of condition for service provision, and that all internal and external repairs and maintenance have been carried out. We have assumed that these repairs do not constitute improvement to the properties and do not have a material effect on asset value.

- Hazardous or Deleterious Materials
    - We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this report we have assumed that such investigation would not disclose the presence of any such material in any adverse condition.

- Contaminated Land
    - We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or possibility of any such contamination. In undertaking our work we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out on the property. We have not carried out any investigation into past or present uses either of the properties or of any neighbouring land to establish whether there is any potential for contamination from these sites to the subject property and have therefore assumed that none exists.

    - Should it however be established subsequently that contamination exists at any of the properties or any neighbouring land or that the properties have been or are being put to a contaminative use this might reduce the values now reported.

- Plant and Machinery
    - Any plant and machinery that has been considered to form part of the property or service installations is included in the valuation. Where there is doubt as to the correct classification, assets installed primarily to provide services to the properties have been valued with the land and buildings and assets primarily serving the commercial or industrial process have been excluded. Any departure from this is stated on the relevant Valuation Statement.

- Lotting
    - Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if a number of properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.

- Taxation
  - No allowance has been made for liability for taxation which may arise on disposal, whether actual or notional. Where possible VAT and Capital Gains Tax are specifically excluded and our valuation does not reflect costs of realisation unless specifically requested by the client. No additions have been made for Stamp Duty Land Tax (SDLT).

- Acquisition and Disposal Costs
  - No notional directly attributable acquisition costs or selling costs have been applied to or deducted from the Current Value and Fair Value figures provided within this report.

  - For indicative purposes only, the Valuer would expect purchaser's cost to be in the region of 0.5% and 5.0% (plus or minus) dependant on the overall value of the asset and property type on an acquisition or disposal respectively.

  - The Valuer has made no allowance for any vendor's costs or taxation (actual or notional) nor has any allowances been made for any capital or annual grants or incentives to which a purchaser may be entitled.

  - The Valuer has not been asked by the client to specifically reflect these costs separately.

  - Guidance on this matter is provided within UKVS 1 Paragraph 1.7 - Costs to be excluded of the Red Book:

    - The valuer must not include directly attributable acquisition or disposal costs in the valuation. When asked by the client to reflect costs, these must be stated separately.

    - In determining the figure to enter into the balance sheet (the 'carrying amount'), IAS16 requires the addition of notional, directly attributable acquisition costs, where material, to the EUV. Likewise, where property is surplus to the entity's requirements and valued on the basis of market value, there should be a deduction for expected, directly attributable selling costs, where material. If requested to advise on these costs, the Valuer should report them separately and not amalgamate them with either the EUV or market value. The valuation should reflect the Valuer's opinion of the consideration that would appear in the hypothetical sale and purchase contract.

    - IAS16 states that directly attributable costs can include stamp duty, import duties and non-refundable purchase taxes, as well as professional fees, the Valuer is alerted to a potential problem with a property that would, or would potentially, be subject to VAT in any transaction but the entity may not be able to reclaim the VAT. The decision whether or not to treat this as a directly attributable acquisition cost should be determined by the entity, together with its auditors. Even if this is the case the Valuer should state clearly in the report what assumptions have been made and the likely impact of VAT in any transaction.

- In the case of surplus properties, directly attributable selling costs that are material may need to be itemised separately. If this is the case they will include not only the transaction costs but also any marketing costs that can be reasonable anticipated.

- Deminimis Levels of Value
    - Only those properties the value of which is considered likely to exceed the "deminimis" level of value determined by The Authority are included separately in this valuation. In all cases, we have included the valuation within the main body of the report as well as summarising them in letter format even if the Authority chooses not to include these within their financial statements.

4. Audit commentary

Our valuation methodology and assumptions evolved from ongoing instructions since 1992 when the current accounting requirements were introduced.

Our working processes are audited through our external consultants Certification International UK Ltd on an annual basis to achieve our ISO 9001:2008 accreditation.

The valuation report and results are reviewed by the client accountant and estates teams before we issue the final version of the report.

5. Non – Publication clause

Neither the whole nor any part of this report nor any reference thereto may be included in any published document, circular or statement nor published in any way without the previous written approval of Wilks Head and Eve as to the form and context in which it may appear.

Our letter of consent will be given when a final proof of the document is available and the consent will refer to a specimen annexed and signed as identification of what has been approved.

As such publication of, or reference to, this report will not be permitted unless it contains a sufficient contemporaneous reference to any departure from the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards.

This report is provided for the stated purpose and for the sole use of the named client and their professional advisors and the Valuer accept no responsibility whatsoever to any other person.

AUDIT AND ACCOUNTS COMMITTEE
25th APRIL 2018

INTERNAL AUDIT PROGRESS REPORT

1.0 Purpose of Report

To receive and comment upon the latest Internal Audit Progress Report which covers the period up to 31 March 2018.

2.0 Introduction

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

3.0 RECOMMENDATION

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

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nick Wilson
Business Manager Financial Services

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NEWARK & SHERWOOD DISTRICT COUNCIL

Assurance LINCOLNSHIRE

For all your assurance needs

Internal Audit Progress Report April 2018

Contents	Paragraph

Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management

For all your assurance needs
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Introduction

1. The purpose of this report is to:

- Advise of progress made with the 2017/18 Audit Plan as at 31 March 2018
- Provide details of the audit work undertaken since the last progress report.
- Provide details of the current position with agreed management actions in respect of previously issued reports
- Raise any other matters that may be relevant to the Audit and Accounts Committee role

Key Messages

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

High Assurance	Substantial	Limited	Low
- Information Governance	- Car Parks - Performance Management (partial) - Income/Banking arrangements - Visitor Centre	- ICT Operations – Starters and Leavers - Performance Management (partial)	- None

Note The Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 3.

3. There are six audits currently at draft report stage – these are:

- Business Continuity
- Health and Safety
- Risk Management
- Corporate Governance
- Procurement
- Active4Today Creditors

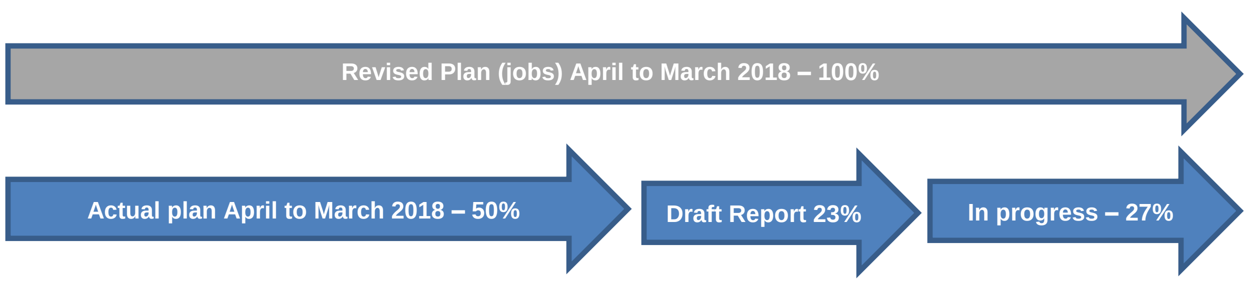
4. There remains some slippage within the plan following the delayed start of some audits at the beginning of the year, availability of some auditees during the office moves and

further delays in commencing audits due to Council staff availability. Audits which have not yet been completed or at draft report stage have commenced and are currently expected to be at draft report stage by the end of April. These include:-

- PCI DSS – this audit was commenced but stalled when the ICT Manager left the Council. This post has yet to be filled but we are liaising with ICT to try and complete the audit.
- ICT Application – Meritec – this audit is in progress and fieldwork is significantly complete
- CCTV – there have been some delays in meeting the auditee but this has now taken place and fieldwork has commenced
- Corporate Policy – the initial meeting with the auditee was cancelled twice due to auditee sickness but has now taken place and fieldwork has commenced
- Contract Management – there was a delay in meeting the auditee but this has now taken place and fieldwork is well underway
- Key Controls – this audit has commenced and fieldwork is well underway
- Moving Ahead – there have been delays in obtaining a start date from the auditee, the brief has been drafted and work has commenced

5. An audit which was previously postponed at the request of the auditee has now been transferred to the 2018/19 plan (Leisure Centre – Client). These days were required to meet the change of scope for another audit on the 2017/18 plan (Contract Management).

6. In terms of jobs we have delivered the following:-



In terms of days we have completed 174 days against a revised total of 246 (71%), the remaining days are expected to be completed within April.

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

7. Progress has been made in implementing audit recommendations there are currently fourteen overdue actions and seventeen actions for which the implementation date has been extended. There is only one high priority recommendation outstanding which relates to the ensuring that the contractor obtains and submits the cash-up slips from the machines (See Appendix 2 and 3).

8. Below are summaries of the audit reports issued:

ICT Operations Starters and Leavers – Limited Assurance

The Council does not currently have policies and procedures that support the creation and management of user accounts for staff and external parties. Putting these policies and procedures in place will help demonstrate that the Council is compliant with the requirements of the Payment Card Industry Data Security Standard (PCI DSS) and best practice as established within ISO: 27001.

We further observed that the expected vetting of new ICT staff to Baseline Personnel Security Standard (BPSS), a further requirement of PCI DSS, has not been evidenced for three recent ICT appointments.

The actual creation of new user accounts for staff are well handled and we did not identify any delays in providing access, although the IT section were not always given sufficient notice of new starters. The leaver process however needs greater control to ensure that accounts are promptly deactivated as we found significant delays in removing access. Also a number of longstanding inactive accounts were present in the system, suggesting that the leavers' process had missed these accounts entirely.

A further area of concern is the management of accounts for external parties. There is no consistent user identifier (e.g. a known prefix included in the user ID) to distinguish user accounts for external parties and it is difficult for the Council to then review such accounts in isolation. Such a review may be necessary for the Council to confirm that external parties are bound by either sufficient contract terms, or non-disclosure agreements, ahead of the implementation of the General Data Protection Regulation (GDPR) coming into effect in May 2018.

Performance Management – Limited/Substantial Assurance

Strategic alignment – Limited Assurance
Substantial work is required to review the suite of the performance indicators in the performance management system ensuring they are aligned to, and support the Council’s strategic priorities.

We acknowledge that there is an ongoing review to ensure alignment with the corporate plans but this is at an early development stage.

Operational Administration - Substantial Assurance
The processes within Organisational Development (Performance Management) continue to operate adequately. These could be enhanced if staff across the Business Units continue to work closely with the team ensuring compliance with the set timescales for the submission of the PI data and responses where requested.

Several other areas were identified where improvements are recommended including:-

- Reviewing and streamlining the number of performance indicators maintained and reported via the performance management system and to CMT ensuring that an appropriate and balanced intelligence is gathered enabling the Council to deliver outcomes focussed on the identified strategic priorities.
- Reviewing and ensuring the performance management indicators comply with government policy, regulation and relevant legislation where applicable.
- Ensuring staff responsible for the management of the performance indicators are encouraged to set up challenging targets enabling them to drive improvements.
- The need for improved communication and dialogue with the Organisational Development (Performance Team) ensuring requests for information and explanations to support the PIs are addressed within reasonable timescales.
- Reviewing the performance indicator data ensuring it is accurately reported and accurate and reliable supporting information held at source to provide an audit trail.

Car Parks – Substantial Assurance

The surface car parks and the Lorry Park are effectively managed with income generation opportunities identified and explored to maximise revenue. This is supported through a number of areas of good practice:-

- Procedures and guidance are in place for the management of the lorry park.
- Evidence that there is an ongoing process where opportunities are identified and explored to increase capacity and income e.g. agreed extension and development of the lorry park, leasing of car park space from external parties.
- Compliance with the approved scale of charges for both the surface car parks and the lorry park.
- Cash collections are banked in full, monitored and performance indicators updated to enable senior management to gain understanding of the areas where further improvements may be required.
- Commitment to ensure all Council maintained car parks are accredited with the British Parking Association’s Park Mark status giving car park users the confidence about the security and safety of the car parks.
- Regular and stable cash collection rounds following the recent appointment of Security Plus + Ltd for a bulk cash collection service.
- Arrangements for the 'on' and 'off' street parking enforcement services provided by NSL Ltd via the Nottinghamshire County Council agreement.
- Continuing use of Watch It Security Services Ltd who patrol the lorry park on a call out.

Income and Banking – Substantial Assurance

Overall, the Income and Banking activity is well managed and all bank accounts the Council maintains are administered effectively. The related processes enables customer payments to be correctly processed and accounted for and the bank balances reconciled to the Cash Receipting system reports (Icon system). This ensures that the General Ledger (E-Financials) is accurately updated and provides useful management information supporting decision making and statutory financial reporting requirements.

This is supported through a number of areas of good practice:-

- The activity is well resourced and key staff completing the processes are highly experienced enabling them to provide on the job training to new staff members for some elements of the role.
- Management continue to explore the use of the Main Accounting System and the Cash Receipting system interfaces to ensure improved operational efficiency and achievement of Value for Money.
- Maintenance of daily and monthly bank reconciliations between the General Ledger and the bank accounts with independent reviews in place.
- Ongoing dialogue with business units to confirm and allocate unidentified customer payments ensuring the suspense account balances are kept to minimum.
- Accurate and prompt posting of transactions between the bank statements to the Icon System and the Icon system to the General Ledger.
- Responsibilities for processing customer receipts, undertaking monthly General Ledger bank reconciliation and approval of bank payments to the suppliers are segregated.

Visitor Centre – Substantial Assurance

Overall the processes which are now in place are much improved from our previous visits and whilst there are a number of recommendations being made they do not pose a high risk to the Centre not being able to meet its objectives. We are pleased that progress has been made to implement the recommendations made within the previous reports, a summary is provided as follows:-

Of the 12 recommendations made within the report covering the Palace Theatre prior to the integration we found that 7 had been fully implemented and the remainder were all partially implemented. Those outstanding include:-

- Reviewing the petty cash amount
- Documenting the process for variances between the actual and expected income
- Reviewing the process for recording payments for room bookings to ensure they are traceable
- Documenting merchandise sales process
- Completing the operational manual

Of the 10 recommendations made for the National Civil War Centre 7 have been implemented and 3 partially implemented. Those outstanding include:-

- Reviewing the petty cash amount
- Completing the imprest slips fully
- Raising orders for purchases prior to receipt of the invoice

Our review of the additional areas found that improvements were required to strengthen the Café/Bar processes including carrying out stocktakes and reviewing the ordering processes so that they meet the requirements of Financial Regulations. The reconciliation of the theatre tokens could also be improved by reconciling them to the till sales and those in stock.

Information Governance (GDPR) – High Assurance

Preparations for changes to UK Data Protection legislation, due to come into law on 25th May 2018 are well in hand by the Council. Our review found that most of the actions needed to demonstrate GDPR readiness have been done and the few that aren't complete are in hand with dates set for completion of the outstanding work. The Information Governance team has used the Information Commissioner's (ICO) Preparing for GDPR – 12 step action plan to identify what work must be done to achieve compliance with the new legislation. Table 1 below sets out the Council's achievements so far in preparing for the change in data protection legislation.

The Council has in place an experienced Information Governance team who we are confident have identified all necessary actions and risks and taken steps to mitigate these.

User awareness training has already started and will be reinforced in the first part of 2018 through an online training course which all Council employees will be expected to complete and demonstrate their understanding of what the new legislation requires from them.

Other significant work

9. We have carried out a review of the safe arrangements at Castle House with Insurance and Risk Management. A report has been produced and issued to the Director Resources for consideration.

Overdue and Extended Audit Recommendations

10. There are currently fourteen overdue actions this quarter and seventeen recommendations where the implementation dates have been extended once for one High risk, six medium risk and more than once for ten Medium risk. These are detailed in Appendix 2 and 3.

Performance Information

11. Our performance is measured against a range of indicators. The table below shows our performance on key indicators as at 31 March 2018.

Performance Details 2017/18 Planned Work

Performance Indicator	Target	2017/18 Actual @ 31/03/18
Percentage of revised NSDC plan completed.	100% (Annual year end)	71%*
Percentage of key financial systems completed.	100% (Annual year end)	53%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented (2017/18 plan).	100%	70%
Timescales a) Draft report issued within 10 working days of completing audit. b) Final report issued within 5 working days of closure meeting / receipt of management responses. c) Draft report issued within 2 months of fieldwork commencing	▪ 100% ▪ 100% ▪ 80%	▪ 100% ▪ 100% ▪ 82%
Client Feedback on Audit (average)	Good to excellent	N/A

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

12. There remains some slippage within the plan following the delayed start of some audits at the beginning of the year, availability of some auditees during the office moves and the postponement of some audits by the Council. There have been further delays in commencing audits due to Council staff availability. We have additional resources in place to reduce the slippage and there is only one audit which has not commenced before the end of the financial year.

13. The remaining performance indicators have all been achieved this quarter.

Changes to the 2017/18 Plan

14. Changes made since the last Committee meeting are as follows:-

- The Leisure Centre Client Monitoring audit has been moved to the 2018/19 plan and the days transferred to the budget for the completion of the consultancy review in contract management.

15. The CIPFA Better Governance Forum March 2018 issued some guidance for Audit Committees covering ‘Developing and Effective Annual Governance Statement’.

    The full reports are included in Appendix 5.

Appendix 1 – Audit Plan 2017/18 Schedule

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Progress %	Audit State
Corporate Governance	10	Requirements of the revised framework have been identified and implemented/plans put in place to implement.	Aug	Jul		95%	Draft Report
Corporate Policy	5	There are process in place which ensure the Council has relevant policies and these are kept up-to-date and published where necessary.	Nov	Mar		15%	Fieldwork
Car Parks	8	Income security and collection processes are adequate. The potential reduction of income due to the loss of some spaces and the effect of the devolution of Markets is managed.	Oct	Oct	Feb 2018	100%	Completed
Leisure Centres – Client Monitoring	0	Monitoring arrangements are in place to effectively monitor the performance of Active4Today and ensure compliance with the agreement.	Sept				Audit moved to 2018/19
ICT - Operations	5	Network users are managed effectively with appropriate set-up, change and removal processes.	May	Jun	Feb 2018	100%	Completed
ICT - Compliance	5	Follow-up of progress on PCIDSS compliance.	Jan	Jun		30%	Fieldwork
ICT - Application	8	Review of one or more key applications	Dec			15%	Fieldwork
Information Governance	10	The arrangements in place for Information Governance ensure that the relevant legislation is complied with and information held by the Council is secure. Arrangements are in place to ensure that General Data Protection Regulations are in place before the deadline.	Dec	Dec	Feb 2018	100%	Completed
Moving Ahead	10	Final gateway review of the closure process including outcomes and lessons learned.	Dec				Auditee postponed.
Performance Management and Assurance	8	There are effective processes in place which ensure that the Council is measuring relevant performance and reporting	Nov	Oct	Feb 2018	100%	Completed

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Progress %	Audit State
		to stakeholders. Action is taken where assurance of compliance is not being provided.					
Risk Management	8	There are arrangements in place which ensure that the risks are identified, monitored and mitigated.	Nov	Jan		85%	Draft Report
Health and Safety	8	Compliance with policies and legislation.	Sept	Jan		85%	Draft Report
CCTV	5	Follow-up of the recommendations made in the 2015/16 audit review.	Mar	Mar		15%	Fieldwork
Estates Management	10	Income is promptly collected and voids minimised. There is a business plan in place.	May	May	December 2018	100%	Completed
Strategic Asset Management	8	There is an up-to-date Strategic Asset Management plan in place and reported. All Council assets are recorded and maintained by the Council or in accordance with any agreement.	Jan	N/A	N/A	N/A	Cancelled
Key Control Testing	30	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.	Jan	Mar		15%	
Income/ Banking arrangements	9	Revised processes in place for the collection, recording and reconciliation of income comply with Financial Regulations and ensure that all income is accounted for. Arrangements with the new bank are embedded.	Sept	Dec	Feb 2018	100%	Completed
Funding	6	Processes are in place which ensure that changes to funding are identified and fed into relevant financial models and planning decisions.	Jul	N/A	N/A	N/A	Cancelled
Procurement	5	Recommendations made within the previous report have been implemented and embedded.	Jul	Oct		85%	Draft report.
Housing Benefits/ Council Tax Support	15	Benefits are paid in accordance with the legislation and Council Tax Support awarded in accordance with policies.	May	Jun	October 2017	100%	Completed

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Progress %	Audit State
Contract Management	13	There are arrangements in place which ensure that contracts are managed effectively.	Feb	Mar		15%	Fieldwork
Insurance	8	Insurance cover is in place, adequate and correctly recharged.	Aug	Sept	November 2017	100%	Completed
Housing and Planning Act	0	Review of processes in place to ensure that the requirements of the Act are identified, implemented and the affects of the implementation reported (including the affect on the HRA)	Jun	N/A	N/A	N/A	Cancelled
Combined Assurance	15	Updating the assurance map and completing the Combined Assurance report.	Oct	Oct	N/A	100%	Completed
Active4Today	2	Assurance on creditors figures feeding into the group accounts.	Jan	Feb		85%	Draft Report
Gilstrap	1	Review of the Gilstrap accounts for the Charities Commission.	Aug	Jun	N/A	100%	Completed
Mansfield Crematorium	5	Completion of the audit of the Mansfield Crematorium Accounts	Apr	May	N/A	100%	Completed
Newark Cattlemarket	5	Completion of the rent calculation for 2016/17	Jun	Jun	Aug	100%	Completed
Emergency Planning	0	c/f from 2016/17 plan	N/A	N/A	N/A	N/A	Postponed by auditee to 2018/19
Debtors - Trade Waste	3	Review of the proposed new system, providing advice.	N/A	Jun	Aug	100%	Report
Business Continuity	5	Follow-up review to ascertain current position	N/A	Dec		95%	With CMT
Grand Total (Revised)	230						

Appendix 2 - Extension of Implementation Dates

Audit Area	Date	Assurance	No.of Agreed Recs	Imp /Closed	Not Due	Extended H	Extended M	Revised Imp. Date	Reason for extension
ICT									
ICT - Database	Sep-17	Substantial	6	1	0	0	3	31/12/17 then 31/03/18 then 30/09/18	Having worked with IDOX on the resolution of this & the below recommendations, the scope of work has been agreed and negotiations underway with IDOX to incorporate this within required upgrades & consultancy work
						0	2	31/12/17 then 31/03/18 then 30/09/18	Investigation ongoing, delayed due to workload & lack of resource within ICT
ICT _Applications CIVICA	Jun'17	Substantial	8	5	0	0	2	31/03/2018 then 30/06/18	The proposals for this have been delayed due to the move to Castle House. Report to be produced & taken to CMT by end of March 2018. Delayed by resource issues within the ICT team, revised date of 30th June 2018
						0	1	30/06/2018	investigation underway to align with ICT partnership
Operations - Starters, Leavers and Movers	Feb-18	Limited	10	3	2	1	2	30/04/2018	Access Control Policy developed, awaiting final sign off
						0	1	30/04/2018	Remote access policy reviewed & refined, awaiting final sign off.
						0	1	30/04/2018	Included in the new user policy. Awaiting response from retrospective vetting
Resources									
Building Security	May-17	Limited	10	6	0	0	1	31/05/2018	Policies are being reviewed to reflect GDPR which comes into effect May 2018
						0	2	31/03/2018 revised to 31/05/18	A piece or work is underway to review & update all policies, these will be included in this review. Policy has now been reviewed and is awaiting sign off
						0	1	31/03/2018 revised to 31/05/18	A process is being put in place to ensure the review of all ICT policies on an annual basis
Total			**34**	**15**	**2**	**1**	**16**		

Appendix 3 – Outstanding Recommendations

Audit Area	Date	Assurance	No.of Agreed Recs	Imp/ Closed	Outstanding*		Revised Imp Date	Not Due
					H	M		
Community								
Car Parks	Feb-18	Substantial	8	0	1	3		4
Customers								
Partnerships - Active4Today	Apr-17	Substantial	5	1	0	4		0
Resources								
Housing and Council Tax Benefits	Oct-17	High	2	0	0	2		0
Insurance	Nov-17	High	4	3	0	1		0
Contract Management	Jun'15	Some Imp. Needed	11	10	0	1	1 x 30/11/15 revised to 31/03/16 revised to 31/12/16 & 1 x 31/08/15 revised to 29/02/16 revised to 31/12/16, 1 revised again to 31/12/17	0
Estates Management	Dec-17	Limited / Substantial	7	3	0	1		3
VAT	May'16	Substantial	4	3	0	1	1 revised to 30/11/17 and again to 31/01/18	0
Total			**41**	**20**	**1**	**13**		**7**

Appendix 4 - Assurance Definitions[1]

High Assurance	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. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial Assurance	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. 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.
Limited Assurance	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. 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.
Low Assurance	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. 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.

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

CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Developing an Effective Annual Governance Statement

March 2018

Dear Audit Committee Member,

I hope you find the first Local Audit Quality Forum a useful and worthwhile day. CIPFA believes that audit committees have a valuable role to play in supporting good governance, strong public financial management and effective internal audit and external audit, so we are very pleased to support this initiative.

I hope this briefing will be a useful resource to supplement the day. It looks at the steps an authority can take to develop an effective annual governance statement and the contribution the audit committee can make to that.

The briefing is available to download free from our website: www.cipfa.org/services/support-for-audit-committees.

Our Position Statement on Audit Committees will also be available to download from the CIPFA website shortly.

Best wishes

Rob Whiteman
Chief Executive
CIPFA

Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, in April 2016, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles. The annual governance statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations[1]. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

What does the guidance say?

The guidance for the AGS is included along with the Framework and it builds on the previous requirements[2]. In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- explain action taken in the year to address the significant governance issues identified in the previous year's statement
- be signed by the chief executive and leading member in a council. The police and crime commissioner (PCC) and chief constable should sign theirs.

CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

Who is the audience?

The AGS is prepared to account to your stakeholders and they are wide and varied. They include:

- local citizens
- local businesses
- partners
- Ministry of Housing, Communities and Local Government (MHCLG)
- external auditors, inspectorates and regulators.

In addition, it should also be a statement that is of value internally – to other members of the governing body and to staff.

What makes a meaningful statement?

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions. Where that is the case, the AGS adds little value and

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[1] In England the Accounts and Audit Regulations 2015
[2] Delivering Good Governance in Local Government: Framework (Addendum) CIPFA 2012

doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

What can be done to make the statement more effective?

Effectiveness of an AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

What shouldn't we do?

There are a number of pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified
- not accounting for action taken to address previous weaknesses.

How can the audit committee help?

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic?

The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

A note on timing

For the 2017/18 AGS in England the deadline for approval and publication of the statement will be brought forward to 31 July instead of 30 September. This is a requirement of the Accounts and Audit Regulations 2015. As a result, committees may find that the AGS is appearing on their agendas earlier than in previous years.

Published by:

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AUDIT & ACCOUNTS COMMITTEE
25 APRIL 2018

COUNTER-FRAUD ACTIVITIES FROM 1 NOVEMBER 2017 TO 31 MARCH 2018

1.0 Purpose of Report

1.1 To inform Members of counter-fraud activity undertaken since the last update reported on 29 November 2017.

2.0 Background Information

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

3.0 Counter Fraud Detection

3.1 The Housing Benefit fraud team was transferred to the Fraud and Error Service at the Department for Works and Pensions on 1 December 2015.

3.2 Any housing benefit cases identified as potentially fraudulent are referred to the Fraud and Error Service at the DWP for investigation.

3.3 Referral procedures have been established and since 1 December 2015, 91 potentially fraudulent claims for housing benefit have been referred to the Fraud and Error Service for investigation.

4.0 Other Counter-Fraud Work

4.1 A fraud risk workshop facilitated by Assurance Lincolnshire was carried out in February 2018, resulting in a refreshed fraud risk register that is also on this agenda.

4.2 The Anti-Fraud and Corruption Strategy was refreshed during this period and was ratified at the Council meeting on 13th February 2018. This has been distributed to all staff within the Council for them to familiarise themselves with.

5.0 The National Fraud Initiative (NFI)

5.1 The National Fraud Initiative (NFI) is a data-matching exercise where electronic data is collected from numerous agencies including police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The data collection is carried out by the Cabinet Office and is reviewed for any matches that might reveal fraudulent activity. e.g. a record of a person's death exists, but that person is still claiming state pension. The potential matches are sent to individual bodies for investigation to check if there is another, innocent explanation. Most data sets are currently submitted every two years, apart from single person discount data which is submitted every year.

5.2 During 2016/17 1,046 Council Tax the single person discount awards were investigated. Of the matches generated by NFI, 91 cases of suspected fraud were identified amounting to £26,819.

5.3 For 2017/18, the exercise still in progress has 2,360 council tax single person awards to review. So far 599 awards have been processed. 3 cases of suspected fraud have been identified with a total value of £353.

5.4 In addition to single person discount, a number of other data sets are currently being reviewed in this round of NFI including:- housing benefit awards, localised Council Tax support awards, taxi and alcohol licences, Council house tenancy records, and Council payroll records.

5.5 Through the other data sets mentioned in paragraph 5.4, 2,192 matches have been processed, of which 3 cases of suspected fraud have been identified with a total value of £582.

6.0 Future Counter Fraud Work

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

8.0 Equalities Implications

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

9.0 Impact on Budget/Policy Framework

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

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

10.0 Financial Comments

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

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

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

11.0 RECOMMENDATION

That Members note the content of the report.

Reason for Recommendations

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

Background Papers

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

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

Nick Wilson
Business Manager - Financial Services

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AUDIT & ACCOUNTS COMMITTEE
25 APRIL 2018

ANNUAL EXTERNAL AUDIT PLAN 2017/18

1.0 Purpose of Report

1.1 To present the External Audit Plan for the 2017/18 Statement of Accounts work and Value for Money Conclusion.

2.0 Introduction

2.1 The External Audit Plan (**Appendix A**) sets out the proposed work of the Council's external auditors for 2017/18, relating to the audit of the financial statements and the Value for Money conclusion.

2.2 The plan describes the audit approach, the key financial statement audit risks and the Value for Money audit approach. It details the audit team, the deliverables from the work, the timeline and the planned audit fee.

3.0 RECOMMENDATION

That the Committee notes the External Audit plan.

Background Papers

Nil

For further information please contact Jonathan Gorrie on 0121 2323645

Nick Wilson
Business Manager – Financial Services

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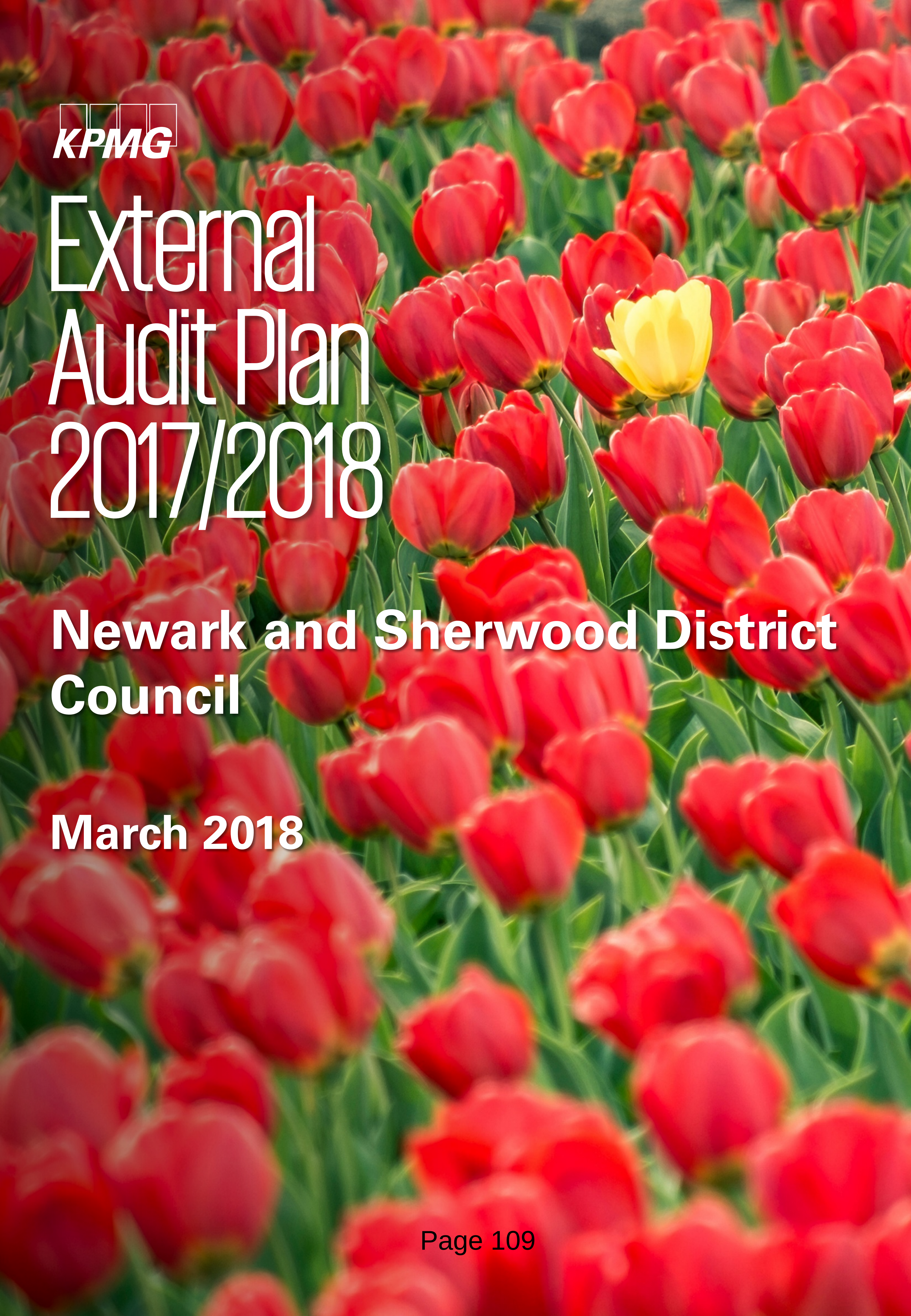


KPMG

External Audit Plan 2017/2018

Newark and Sherwood District Council

March 2018

Summary for Audit and Accounts Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to the year ended 31 March 2017. This represents a change for Newark and Sherwood District Council and will need to be carefully managed in order to ensure the new deadlines are met. As a result we have recognised a significant risk in relation to this matter.

In order to meet the revised deadlines it will be essential that the draft financial statements and all 'prepared by client' documentation is available in line with agreed timetables. Where this is not achieved, there is a significant risk that the audit report will not be issued by 31 July 2018.

Materiality

Materiality for planning purposes has been set at **£1 million.**

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£50,000.**

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE** – The Authority owns Property, Plant and Equipment valued at £278.9m (2016/17 audited accounts) and operates a cyclical revaluation approach. The Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated.
- **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary is £72m (2016/17 audited accounts) and is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure the accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). The Authority was able to produce the accounts by 13th June in the previous year but will need to bring the timetable forward this year. We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

Summary for Audit and Accounts Committee (cont.)

Financial Statements (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of additional audit focus have been identified as:

- Business Rate Appeals.
- Prior period adjustment

See pages 3 to 11 for more details

Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk to date:

- **Financial resilience**– As a result of reductions in central government funding, and other pressures, the Authority is having to pursue Commercialisation and Investment Strategies. The Authority made a surplus in the previous year, reporting an underspend of £0.9 million against profiled budgets, and set a balanced budget for 2017/18. The Authority has modelled the potential shortfall against budget for a range of scenarios, with a projected worst case forecasted deficit of over £1 million in 2020/21. We will consider the way in which the Authority develops its Medium Term Financial Strategy and the progress of its Commercialisation and Investment arrangements.
- **See pages 12 to 16 for more details**

Logistics

Our team is:

- John Cornett – Director
- Helen Brookes – Manager
- Rachit Babbar – Assistant Manager

More details are in **Appendix 2**.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan, an Interim Letter (if applicable) and a Report to Those Charged With Governance as outlined on **page 19**.

Our fee for the 2017/18 audit is £48,329 (£49,969 2016/2017) see **page 18**. This fee is in line with the scale fees published by PSAA. The variation from the scale fee in the previous year was due to the restatement of the CIES and minor issues with other working papers.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit/review and report on your:

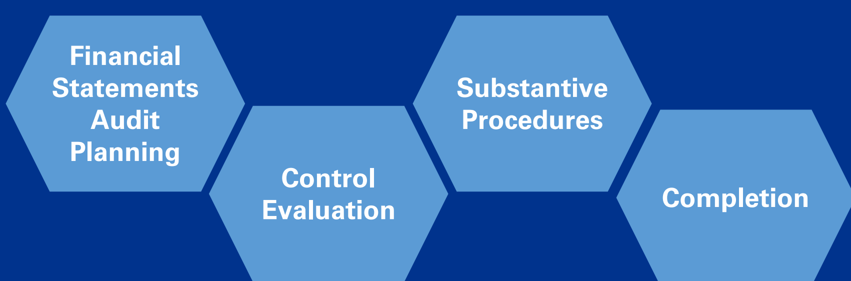
01 **Financial statements :**
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02 **Use of resources:**
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reported to the Audit and Accounts Committee.

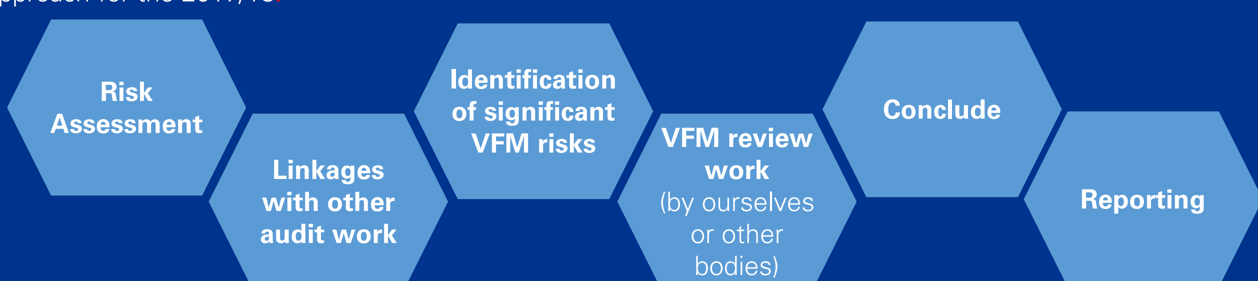
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a six stage process which is identified below. Page 12 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2017/18.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2017 to February 2018. This involves the following key aspects:

— Determining our materiality level;

— Risk assessment;

— Identification of significant risks;

— Consideration of potential fraud risks;

— Identification of key account balances in the financial statements and related assertions, estimates and disclosures;

— Consideration of management's use of experts; and

— Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

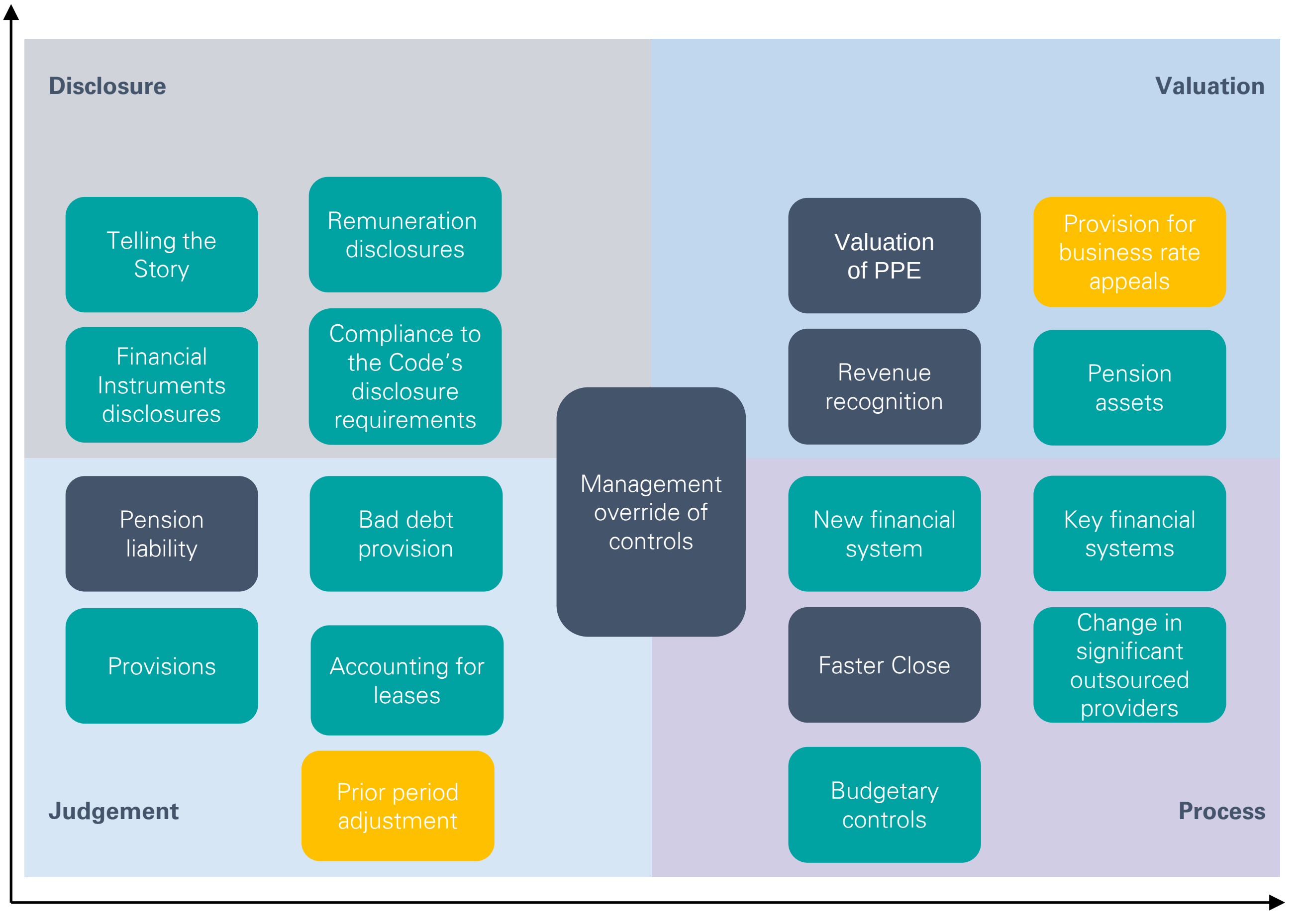
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: Significant risk — Other area of audit focus — Other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

Significant audit risks are those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk: **Valuation of PPE**

The Authority owns Property, Plant and Equipment valued at £278.9m (2016/17 audited accounts) The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet with the valuation of the Authority's pension liability, as calculated by the Actuary being £72m (2016/17 audited accounts) . The Authority is an admitted body of Nottinghamshire Pension Fund which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.
Approach:	As part of our work we will review the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the actuary, Barnett Waddingham. We will review the appropriateness of the key assumptions included within the valuation with the use of a KPMG Actuary. Our Actuary will also review the methodology applied in the valuation by Barnett Waddingham. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk: **Faster Close**

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In 2016/17, the Authority was able to produce the accounts by 13th June but will need to deliver earlier in the current year, both in terms of the accounts and the supporting working papers. In the previous year, we identified scope to improve the clarity of some working papers, particularly those which support the property, plant and equipment balances and to ensure that the working papers presented are the latest version which supports the figures in the accounts. This will be particularly important in meeting the revised audit deadline. In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit and Accounts Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit and Accounts Committee in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date whilst work is on-going in relation to the Authority’s Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.

Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

Financial statements audit planning (cont.)

Areas of audit focus

Areas of audit focus relate to those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of additional audit focus.

Area of audit focus:	**Business Rates Provision** The provision for business rate appeals is an area of audit focus since local authorities have little control over the level of appeals and their outcome. It is difficult to anticipate the financial impact of successful appeals as the potential change in rateable value cannot be predicted. Also, there is usually no indication of timescales to settle an appeal, making it a matter of judgement as to when the financial impact will fall.
Approach:	We will review the Authority's approach to estimating its provision for business rate appeals against the requirements of IAS37–Provisions, Contingent Liabilities and Contingent Assets.

Area of audit focus:	**Prior period adjustment** The Authority has identified an asset that was transferred from another local government body in 2015 but has been omitted from the Authority's asset register. A prior period adjustment may therefore be required to properly reflect the asset in the accounts this year and in prior years.
Approach:	We will review the Authority's calculations in respect of any prior period adjustment and its subsequent disclosure in the accounts.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £1 million which equates to 1.2 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Authority Prior Year Gross Expenditure: £84.626 million

Materiality

£1 million

1.2% of Expenditure

(2016/17: £800,000, 1%)

£50,000
Misstatements reported to the Audit and Accounts Committee
(2016/17: £40,000)

£750,000
Procedures designed to detect individual errors
(2016/17: £600,000)

£1 million
Materiality for the financial statements as a whole
(2016/17: £800,000)

Financial statements audit planning (cont.)

Reporting to the Audit and Accounts Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Accounts Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £50,000.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Accounts Committee to assist it in fulfilling its governance responsibilities.

We will report:

- Non-Trivial corrected audit misstatements
- Non-trivial uncorrected audit misstatements
- Errors and omissions in disclosure (Corrected and uncorrected)

Group audit

In addition to the Authority, the group accounts include the following subsidiaries, none of which are deemed to be significant in the context of the group audit:

– Newark and Sherwood Homes Ltd; and
– Active4Today.

We will reassess the significance of these subsidiaries throughout our audit and will report any changes in our assessment to the Audit and Accounts Committee.

Value for money arrangements work

VFM audit approach

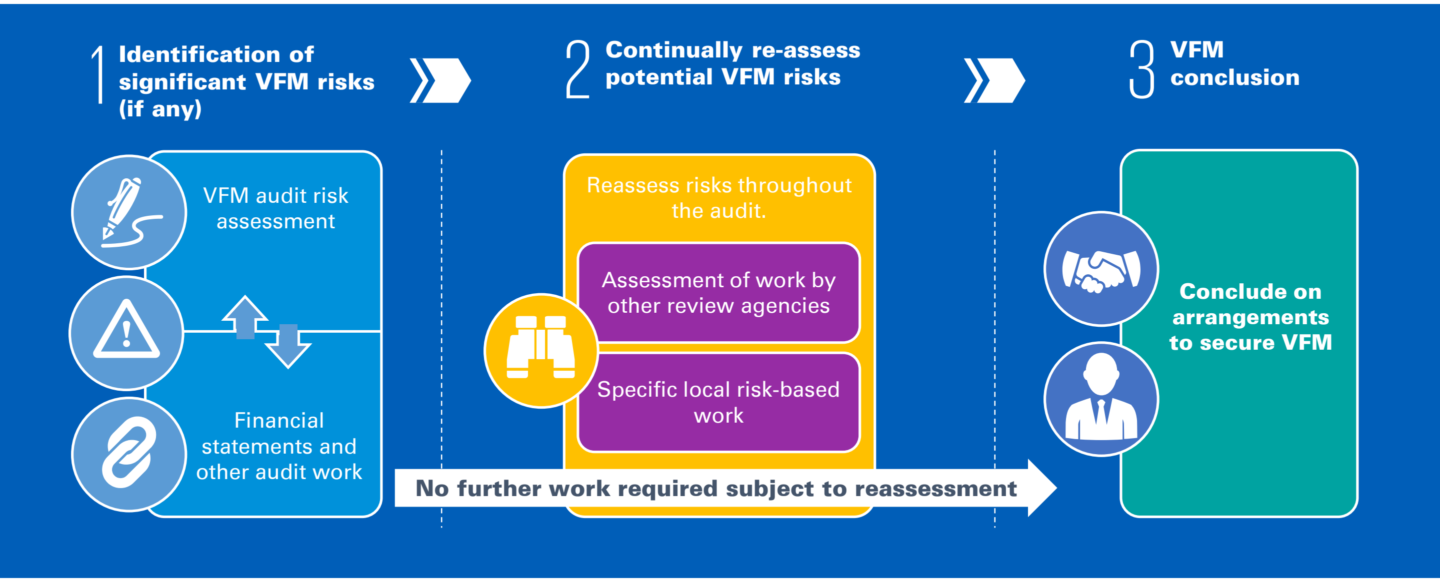
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



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Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage

VFM audit risk assessment

Linkages with financial statements and other audit work

Identification of significant risks

Audit approach

We 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 we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Audit approach

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage

Assessment of work by other review agencies, and Delivery of local risk based work

Concluding on VFM arrangements

Reporting

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and outside the sector.

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Audit approach

We have completed our initial VFM risk assessment and have identified one VFM risks. We will update our assessment throughout the year should any other issues present themselves and report against these in our ISA260.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Risk: **Financial resilience**

The Authority made a surplus in the previous year, reporting an underspend of £0.9 million against profiled budgets, and set a balanced budget for 2017/18. It has been able to achieve this position due to sound financial management in recent years. The Authority has modelled the potential shortfall against budget for a range of scenarios, with a projected worst case forecasted deficit of over £1 million in 2020/21. The Medium Term Financial Plan shows that the Authority has achieved £5.67 million of savings since 2010, which equates to 33% of its service budgets. The Authority is in a strong position with a high level of reserves, but has recognised the risks around future funding beyond 2020. It has therefore articulated a strategy to manage demand and to increase its income generation, to ensure that the future fall in central government funding does not adversely impact the provision of services. The successful delivery of the Authority's Commercialisation and Investment Strategies will be crucial to secure ongoing financial resilience whilst ensuring continuity of services.

Approach: As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We will also assess the development of the Authority's Commercialisation and Investment Strategies.

VFM Sub-criterion: This risk is related to the following Value For Money sub-criterion

— Informed decision making;

— Sustainable resource deployment; and

— Working with partners and third parties.

Other matters

Whole of government accounts (WGA)

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Authority. Deadlines for completion of this for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Finance team and the Audit and Accounts Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/18 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Our audit fee may be varied later, subject to agreement with both the s.151 Officer and PSAA, for changes in the Code. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £48,329 compared to 2016/2017 of £49,969. The variation of £1,640 from the scale fee in the previous year was due to the restatement of the CIES and minor issues with other working papers.

Appendix 1:

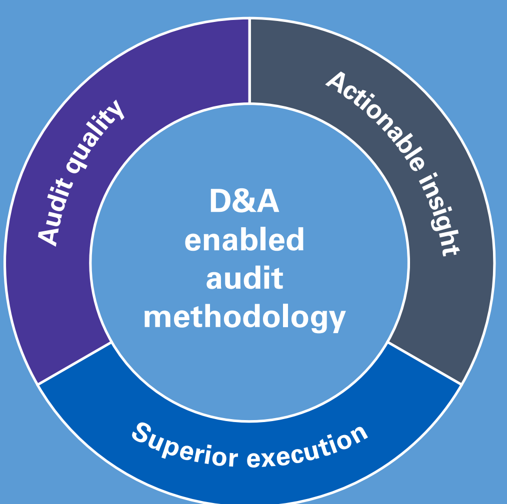
Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

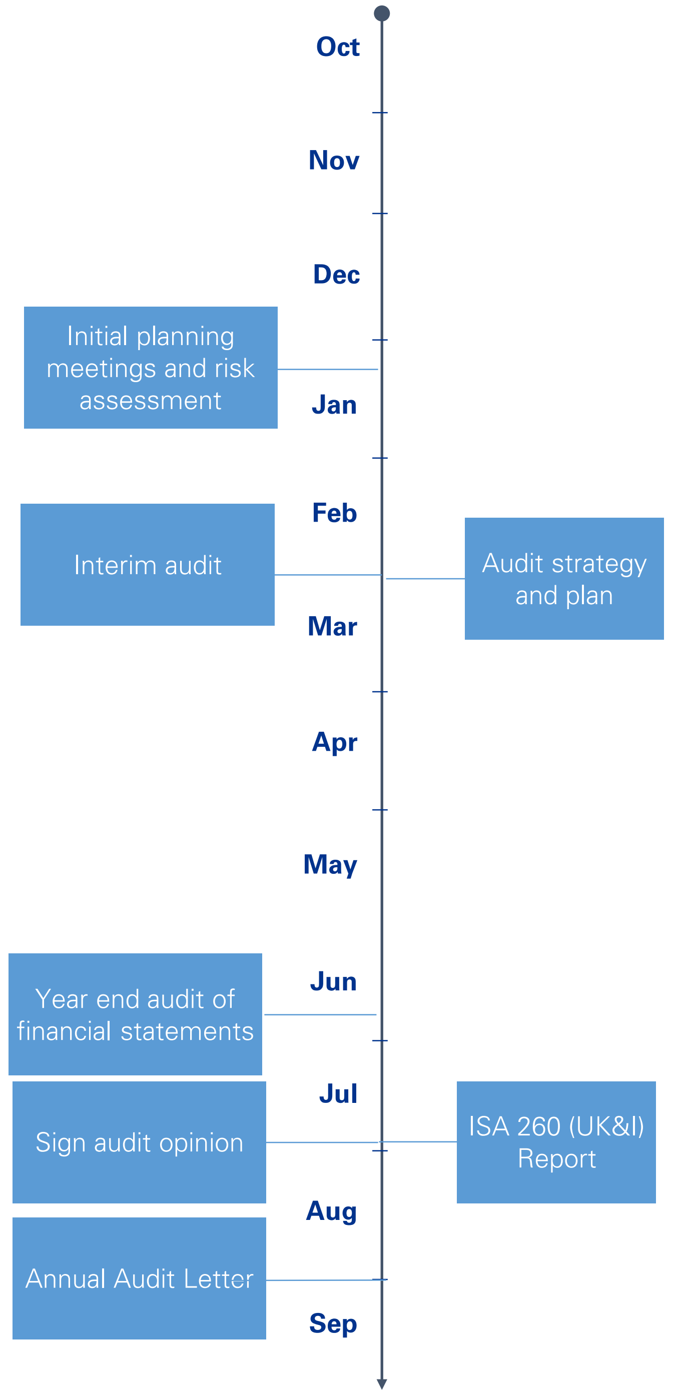
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher level assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals.



Communication

Continuous communication involving regular meetings between Audit and Accounts Committee, Senior Management and audit team.



Appendix 1:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use of experts; and
- Issuing this audit plan to communicate our audit strategy.

Control evaluation

- Understand accounting and reporting activities;
- Evaluate design and implementation of selected controls;
- Test operating effectiveness of selected controls; and
- Assess control risk and risk of the accounts being misstated.

Substantive testing

- Plan substantive procedures;
- Perform substantive procedures; and
- Consider if audit evidence is sufficient and appropriate.

Completion

- Perform completion procedures;
- Perform overall evaluation;
- Form an audit opinion; and
- Audit and Accounts Committee reporting.

Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department.

John Cornett
Director

T: 0116 256 6064
E: john.cornett@kpmg.co.uk

‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.
I will be the main point of contact for the Audit and Accounts Committee and Chief Executive.’

Helen Brookes
Manager

T: 0115 945 4476
E: helen.brookes@kpmg.co.uk

‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas.
I will work closely with the Director to ensure we add value.
I will liaise with the Director of Resources and other Executive Directors.’

Rachit Babbar
Assistant Manager

T: 0121 232 3188
E: rachit.babbar2@kpmg.co.uk

‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

Appendix 3:

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NEWARK AND SHERWOOD DISTRICT COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 3:

Independence and objectivity requirements (cont.)

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit and Accounts Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

kpmg.com/uk

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

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

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AUDIT & ACCOUNTS COMMITTEE
25 APRIL 2018

FRAUD RISK ASSESSMENT

1.0 Purpose of Report

1.1 This report is to inform Members of the update of the Fraud Risk Register undertaken during February 2018.

2.0 Background Information

2.1 A fraud risk assessment was first undertaken in June 2014 and a fraud risk register produced and presented to the Committee.

2.2 The fraud risks are reassessed periodically and the register updated. The amended Fraud Risk Register as at February 2018 is attached at Appendix A.

3.0 Work Undertaken

3.1 All of the services provided by the Council have been reviewed to understand whether there are any new areas where fraud might occur. The types of fraud have also been considered to determine if there are any new risks to the Council.

3.2 The risk scores were then reviewed to determine whether the impact or likelihood of any of the frauds occurring has changed since the last review.

3.3 The number and values of transactions have been updated to reflect the 2016/17 financial year. Estimates of potential fraud losses have been calculated based on rates of fraud identified by the National Fraud Authority.

3.4 The final part of the exercise was to consider whether any new controls had been put in place during the year, whether the further controls identified last time had been implemented and whether there were any new controls that could be put in place to further reduce the risk.

4.0 Results

4.1 Eighteen areas of the Council's activities are considered to be at the risk of fraud, four of which have sub-categories within them. The type of risk is dependent on the service. Based on the existing controls, of those risks, seven are currently considered to be medium risk (amber) and fifteen are low risk (green).

4.2 The only area where the assessment has changed is NNDR – green to amber. This is due to the increase in Business Rates avoidance tactics that is a trend nationally (companies claiming to be charities for example). It is felt that it is prudent to upgrade the risk and keep a watching brief.

4.3 The further actions that have been implemented up to December 2017 which will help to mitigate fraud risks include:

Housing Benefit Fraud:

- Other Data Matching initiatives in place (other than NFI) – Real Time Information reviewed frequently (pensions, earnings & employment records against Universal Credit etc).
- Counter-fraud page on NSDC website which details how the public can report fraud.
- Council Tax and Housing teams sharing intelligence to identify potential fraud.

Credit Income and refund Fraud:

- Receipt of cash limits in place before decision taken by Money Laundering Reporting Officer.

Bank Fraud

- A phone system for taking card payments has been implemented.

Development Management

- Site visits captured by photographs taken, dated and saved electronically to the case file.

4.4 There are a few new actions that need to be put in place:

- Use of an analytical approach to target main business rate payers (20-30 in number make up 90% of RV) in line with best practice;
- Revenues and Benefits Team to discuss approach for refunding;
- Update of Contract Procedure rules;
- Possible changes due to GDPR need to be considered;
- Consider changes to expenses system to reduce likelihood of false claims;
- Consider exercise to check to ensure suppliers do not have links to organised crime;
- Inclusion of the annual number of tenancy fraud cases in the Council's approved monitoring framework scrutinising NSH – this is reported to Members through the Homes and Communities Committee;
- Gain Cyber Essentials accreditation.

4.5 Twelve of the risks have achieved their target score. For the ten that are still above the target score, in most cases this is due to the Council being able to do little to prevent the likelihood of the fraud occurring.

4.6 The Fraud Risk Register will be updated and reported to the Committee regularly. The risks, controls, current risk scores and target scores, and further actions, will be added to the Covalent system to ensure regular monitoring is undertaken. Progress on implementing further actions will be reported in the bi-annual Counter-Fraud activity report to the Committee.

5.0 Equalities Implications

5.1 There are no equality implications in the report.

6.0 Impact on Budget/Policy Framework

6.1 The further actions detailed in the Fraud Risk Register can be achieved without impacting on current Council budgets. Fraud, if it occurs, could be a serious drain on the Council's resources.

7.0 RECOMMENDATION

That Members note the content of the report.

Reason for Recommendations

To promote a strong counter-fraud culture, it is important that Members are aware of the Council's fraud risks and the controls in place to mitigate them.

Background Papers

None

For further information please contact Nick Wilson on Ext 5317

Nick Wilson
Business Manager – Financial Services

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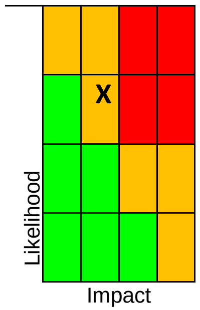
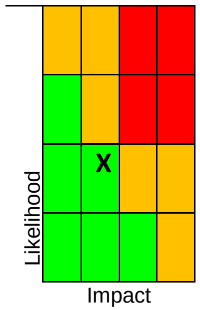
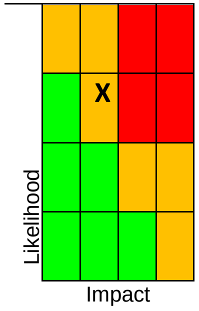
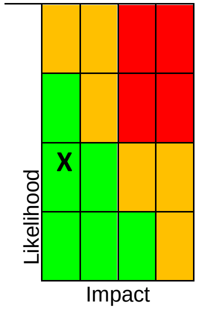
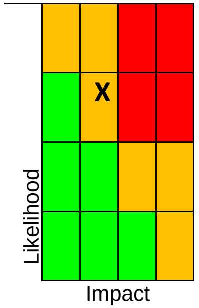
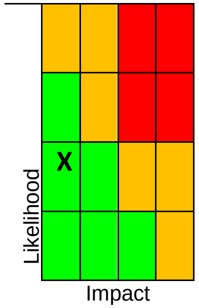
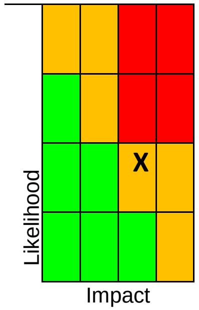
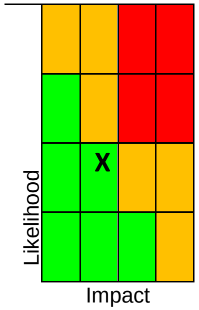
Newark & Sherwood District Council – Fraud Risk Assessment (February 2018)

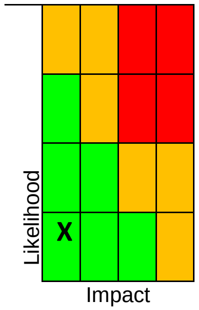
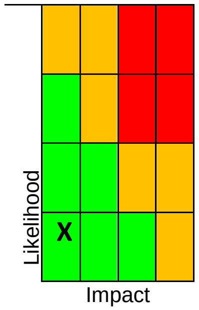
	Fraud Risk	Key Controls and Actions	Risk Owner	Current Risk Score	Target Risk Score	Current Assurance Status	Exposure
			1. HOUSING BENEFIT FRAUD				
	Any fraud linked to the false claiming of housing benefit: • False applications • False documents • Failing to notify change	**Controls in place** • Housing Benefit Anti-Fraud Strategy • Annual participation in National Fraud Initiative • Other data matching initiatives in place – real time information reviewed frequently (pensions, earnings & employment records (against universal credit etc) • HBMS – Government housing benefit matching scheme • Fraud investigators now transferred to FES – Service Level Agreement & procedures in place • DWP (FES) use prosecution, caution & admin penalties – NSDC no longer have powers • Key controls in the housing benefit application process – prevention & detection • Authorised officer	**Resources Directorate** **Business Manager Revenues & Benefits**			**AMBER**	**Since December 2016 :** **6 cases confirmed as fraud & sanctioned** **(Other cases still being investigated)** **Value:** **£13173 (HB)** **£394 (CTS)** **Housing Benefit bill for 2016/17 : £26.7m** **Forecast for 2017/18 - £25m** **National Fraud Authority potential annual fraud losses = 0.7% or £190k**

		powers – access to employers, landlords, banks & building societies • Daily ATLAS updates (including UC) notifications/updates to system • Fraud awareness training to social landlords • Ad hoc communication to social landlords • Financial Regulations • Experienced benefits staff • Combined database with revenues • Only accept original documents in support of claims • Subscription to National Anti-Fraud Network • DWP led Housing Benefit review • Communications & publicity • Internal Audit reviews • Whistleblowing Policy • Counter-fraud page on website detailing how public can report fraud • Council Tax and Housing teams sharing intelligence to identify potential fraud ***Further actions required*** • *Need to ensure sanction figures obtained from DWP for*					

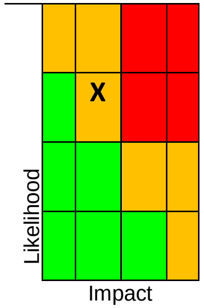
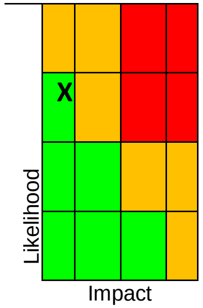
		HB cases in our area					
	2. COUNCIL TAX SUPPORT SCHEME						
	• False applications • Failure to notify change in circumstances	**Controls in place** • Most controls are the same as Housing Benefits • Anti-Fraud & Corruption Strategy • Council Tax Support policy • Counter-fraud page on website detailing how public can report fraud • Financial Regulations • Whistleblowing Policy • County-wide Single Person Discount review completed • LCTS included in National Fraud Initiative (data matching) from October 2016 ***Further action required*** • *Closer working – Council Tax and Housing to share intelligence and identify potential fraud opportunities* • *Need to consider use of sanction powers for LCTS – under Local Government Finance Act 1992*	**Resources Directorate** **Business Manager Revenues & Benefits**			**AMBER**	**1 confirmed fraud case since December 2016 (joint case with DWP)** **Annual level of council tax support paid : £6.4m** **Forecast for 2017/18 - £6.5m** **National Fraud Authority potential annual fraud losses = 0.7% or £44.8k**

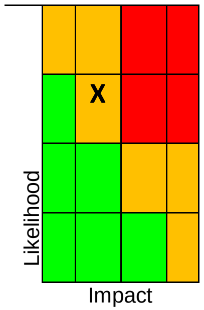
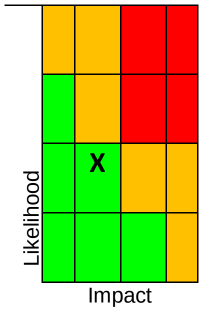
3. COUNCIL TAX FRAUD							
	• Single person discount • Avoidance of liability through any other fraudulent claim for council tax discount or exemption • New properties not on the list: ○ built without planning permission ○ No notification of properties built and occupied ○ Or built and substantially complete	**Controls in place** • Financial Regulations • Anti-Fraud & Corruption Strategy • National Fraud Initiative – data matching • Monthly monitoring of council tax base • Liaising with the university – access to student lists • Application checks • Annual review of students continued attendance on course • Checks with electoral register • Information from planning re Permitted Developments where full planning not required • Checks on documentary evidence for exemptions • Visual inspection • Internal Audit reviews • Whistleblowing Policy • Separation of duties • Counter-fraud page on website detailing how public can report fraud • County-wide Second Person Discount review completed ***Further action*** • *Closer working – Council Tax and Housing to*	**Resources Directorate** **Business Manager - Revenues & Benefits**			**AMBER**	**Annual Council Tax Income collected : approx. £65m** **National Fraud Authority potential annual fraud losses : 4% or £2.84m (NSDC share = £284k)** **Value of SPD fraud confirmed since December 2016 : £23135 (86 cases)**

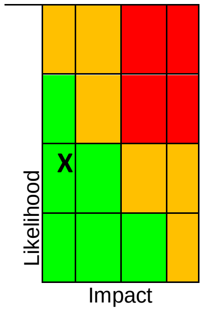
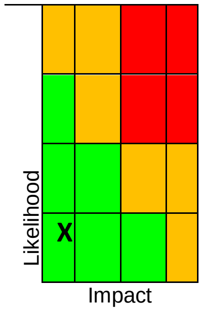
		share intelligence and identify potential fraud opportunities					
			4. NNDR FRAUD				
	• Failure to declare occupation • Payment using false bank details • Companies going into liquidation then setting up as new companies • Avoidance of liability through fraudulent claim for discount or exemption • Empty rate avoidance	**Controls in place** • Up to date Financial Regulations • Up to date Anti-Fraud & Corruption Strategy • Ensure liable person identified for each assessment on the list • Information sharing with other Business Units • Inspections of occupied properties • Checking empty properties • Information from Landlords or letting agents • Public complaints – reports to valuation office • Internal Audit reviews • Whistleblowing Policy • Separation of duties • Register of Gifts & Hospitality/Register of Interests • Supporting evidence requested • Counter-fraud page on website detailing how public can report fraud • Use of Analyse Local to monitor threats • Shared inspection resource – NDR	**Resources Directorate** **Business Manager - Revenues & Benefits**			**AMBER**	**Annual NNDR income collected - approx. £41m** **National Fraud Authority potential annual fraud losses : 3.76% or NSDC share £154.1k**

		inspector with BDC to check properties where no appeal has been made • More staff involved – eyes on NDR ***Further action*** • *Use analytical approach to target main business rate payers (20-30 in number that make up 90% of IRRV) in line with best practice*					
5. CREDIT INCOME AND REFUND FRAUD							
	e.g. **Council tax** **NNDR** **Rents** • Suppression of notification of debt to be raised • Improper write-off • Failing to institute recovery proceedings • Switching or transferring arrears • manipulation of credit balances • Payment using false / fraudulent	**Controls in place** • Up to date Financial Regulations • Up to date Anti-Fraud & Corruption Strategy • Debit/credit card payments monitoring • Review of unusual activity • Refund to original card/bank account where appropriate • Authorisation procedures & levels • Checking against other accounts (Council Tax etc.) to ensure no other money owed to NSDC • Staff counter-fraud training • Audit trail/personal logins • Reconciliations	**Resources Directorate** **Business Manager - Revenues & Benefits**			**GREEN**	**Total value of refunds made in 2016/17 : £1.6m** **Total value of write-offs in 2016/17 : £277k** **(Refunds and write-offs relating to NDR and Council Tax)**

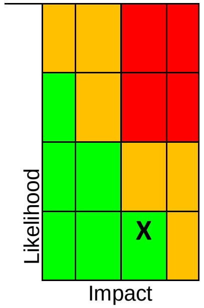
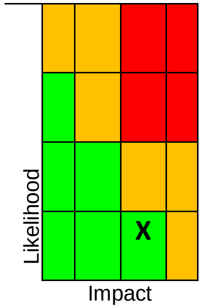
	instrument then re-claim of refund • Employee based; false payment then request for refund	• Budgetary controls • Write off policy • Debt recovery procedures • Supervisory controls • Review of credit balances and suspense items • Internal Audit reviews • Whistleblowing Policy • Counter-fraud page on website detailing how public can report fraud • Counter Fraud details on intranet • Financial Regulations training for all appropriate staff – completed • Introduction of cashless system • Cash limits in place • Follow up payment sources ***Further action*** • *Revenue and Benefits Team to discuss if any fraud risks in this area*					

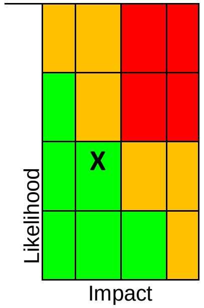
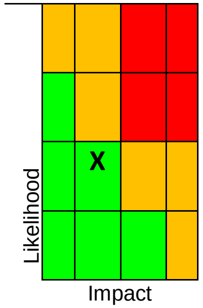
6a. PROCUREMENT AND CONTRACT FRAUD (CONTRACTS)							
	• Bid rigging & cartels - including cover pricing • Bribery of officers or Members involved in contract award • Collusion between officers and contractors involved in tendering • Violation of procedures • Manipulation of accounts • Failure to supply • Failure to supply to contractual standard • Inflating performance information to attract greater payments	**Controls in place** • NAFN & fraud alerts • Contract procedure rules • Up to date Financial Regulations • Contract management • Contract Terms & Conditions • Equifax check on accounts • Finance team check on accounts for large contracts • Evaluation teams for award of contracts - individual scoring • Code of Conduct • Whistleblowing policy • OJEU regulations • Register of Gifts & Hospitality/Register of Interests • Procurement Manager advice & involvement • Secure receipt and storage of tenders • Anti-Fraud & Corruption Strategy • Staff counter-fraud training • Internal Audit reviews • Separation of duties • Contract management training • Advertisement of contract opportunities • Transparency Code 2014 and Transparency	**Resources Directorate** **Procurement Manager**			**AMBER**	**Total annual supplier spend 2016/17 – approx. £26.6m. This value can fluctuate depending on construction projects at the time** **National Fraud Authority - potential annual fraud losses : 1% (or £266k)**

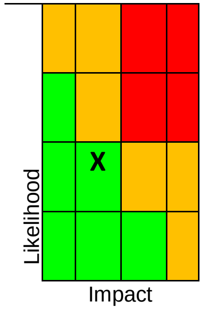
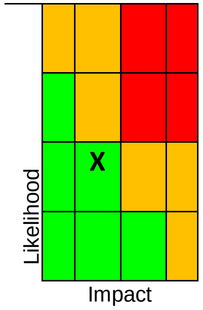
		agenda • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on new intranet • CIPFA guidance – Managing the Risk of Procurement Fraud • Procurement guidance on Contract Management on intranet • Invoice reconciliation procedures for key utility bills (gas/electricity) in Admin Services BU ***Further actions required*** • *CPPRs require updating* • *Deployment of Pro contract system including controls and full audit trail*					
6b. PROCUREMENT AND CONTRACT FRAUD (PAYMENTS)							
	• Credit cards & procurement cards • False invoices & claims • Duplicate payments (false submission) • Senior executive fraud • BACS fraud - fraudulent change	**Controls in place** • Up to date Financial Regulations • Up to date Anti-Fraud & Corruption Strategy • National Fraud Initiative • Whistleblowing Policy • Payment authorisation process • Reconciliations • Audit Trail/personal logins • Segregation of duties	**Resources Directorate** **Business Manager - Financial Services**			**AMBER**	**Total annual supplier spend 2016/17 – approx. £26.6m. This value can fluctuate depending on construction projects at the time** **National Fraud Authority - potential annual fraud losses : 1% (or £266k)**

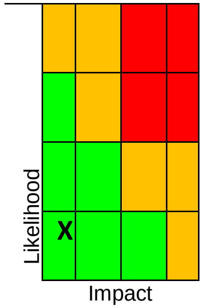
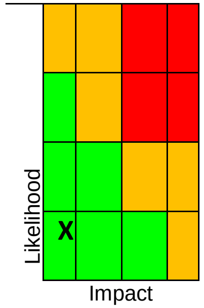
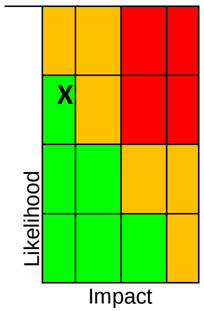
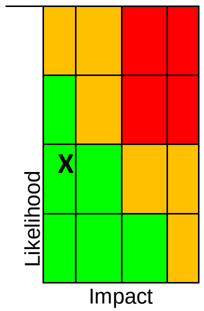
	of bank details • Mandate fraud • Fake details for internet payments • Claiming petty cash for personal items • Records or methods of payment	• Check/approval on changes to creditor details (to prevent mandate fraud) • Budgetary control • Card security features • Ownership for cards identified • Staff counter-fraud training • NAFN fraud alerts • Experienced staff • Internal Audit reviews • Transparency reporting • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on intranet • Financial Regulations training for all appropriate staff – completed					
7. BANK FRAUD							
	• False instruments: • misuse of cheques • alteration of existing cheques • Mandate, Direct Debit, Standing Order fraud on Council's bank account • Theft of customer card data	**Controls in place** • Up to date Financial Regulations (and training) • Up to date Anti-Fraud & Corruption Strategy • Bank reconciliation • Control accounts • Cheque signatories – authorisation • Letter from banking/ID to withdraw cash • Audit trail/personal logins • Verify changes of bank account details using	**Resources Directorate** **Business Manager - Financial Services**			**GREEN**	**2016/17 - processed by bank:** • **6462 debit transactions** • **43540 credit transactions**

		original contact information & audit trail • Security checks on standing orders • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Separation of duties • Register of Gifts & Hospitality/Register of Interests • NAFN fraud alerts • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on intranet ***Further actions required:*** • *Hosted system for PCIDSS compliance* • *Possible changes due to GDPR will need to be considered (possible outsourcing to transfer the risk)*					

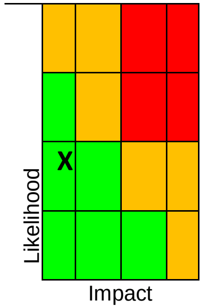
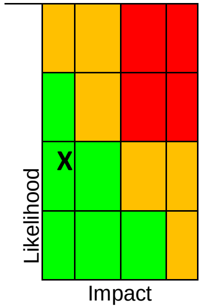
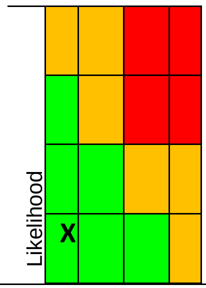
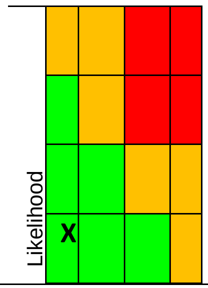
8. INVESTMENT FRAUD							
	• Fraudulent misappropriation of assets • Loss through breach of procedures • False instruments	**Controls in place** • Treasury Management Strategy • Investment procedures • Authorisation procedures for investments & loans • Treasury Management advisers • Suitability checks on investments • Segregation of duties • Regular independent supervision • Audit trail of investments & personal logins • Staff counter-fraud training • Financial Regulations (and training) • Anti-Fraud & Corruption Strategy • Internal Audit reviews • Whistleblowing Policy • Separation of duties • Register of Gifts & Hospitality & Register of Interests	**Resources Directorate** **Business Manager - Financial Services**			**GREEN**	**Average level of investment for 2016/17 approx. £18.9m**

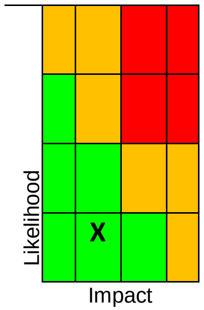
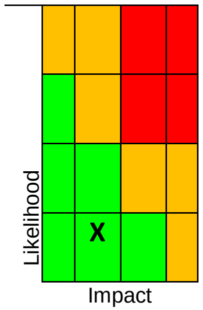
9a. ASSETS (LAND AND PROPERTY)							
	• Selling asset for less than market value • Collusion between staff and purchaser – may include provision of insider knowledge (e.g. planning, leases & covenants)	**Controls in place** • Asset Management Plan • Asset register • Segregation of duties • Independent valuation or auction • Committee scrutiny and authorisation • Financial Regulations • Anti-Fraud & Corruption Strategy • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Register of Gifts & Hospitality/Register of Interests • Credit checks on potential purchasers • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on intranet • Spot checks of council housing HRA Development and disposal programme	**Resources Directorate** **Business Manager - Asset Management** **HRA Director - Safety** **Business Manager - Strategic Housing** **Newark & Sherwood Homes**			**GREEN**	**Net book value of Land & Buildings (not including Council Houses) : approx. £56.6m** **ICT equipment value - £1.157m** **Net book value of Council Dwellings £215.3m**

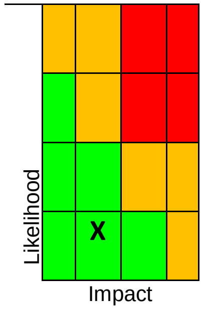
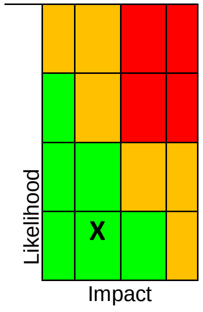
9b. ASSETS (EQUIPMENT)							
	• Selling asset for less than market value • Collusion between staff and purchaser • Disposal of assets no longer required by the council	**Controls in place** • Asset Disposal policy • Asset register • Financial Regulations • Anti-Fraud & Corruption Strategy • Staff counter-fraud training • Segregation of duties – includes systems administration, raising and authorising of financial procurements • Internal Audit reviews • Whistleblowing Policy • Register of Gifts & Hospitality & Register of Interests • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on intranet • Financial Regulations training for all appropriate staff – completed verification of RTB valuations	**Customers Directorate** **Business Manager - ICT**			**GREEN**	**Net book value of vehicles, plant and equipment = approx. £5.5m**

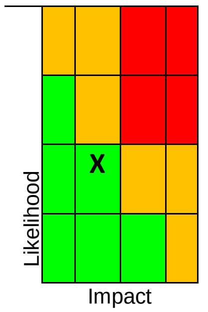
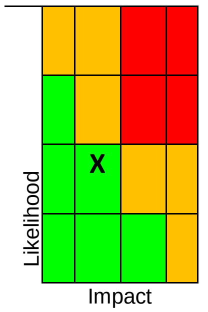
10a. EMPLOYMENT (RECRUITMENT FRAUD)							
	• False identity • Immigration (no right to work or reside) • False qualifications • Failing to disclose previous convictions	**Controls in place** • National Fraud Initiative • Code of Conduct • HR policies –recruitment and selection policy incorporating DBS Code of practice and safeguarding requirements where appropriate. • Pre-employment checks by HR including identity verification and medical screening	**Safety Directorate** **Business Manager - HR & Legal**			**GREEN**	
10b. EMPLOYMENT (PAYMENT FRAUD)							
	• Creation of non-existent employees • Unauthorised changes to payroll • Redirection or manipulation of payments • False sick claims • Not working required hours • Not undertaking required duties • Working for multiple employers (without informing manager)	**Controls in place** • HR policies – sickness, Appraisals, disciplinary capability and flexi time scheme. • Financial Regulations • Anti-Fraud & Corruption Strategy • Separation of duties between HR, Payroll & Business Managers • Contracts • Access controls • Management supervision • Authorisation of claims • Budgetary control • Exception reports produced and reviewed • Audit trail/personal logins • Any employee changes	**Resources Directorate** **Business Manager - Financial Services**			**GREEN**	**Total cost of payroll including expenses payments 2016/17 = £11.3m** **National Fraud Authority potential annual fraud losses = 0.2% or £22k** **Average number of employees paid monthly – 489**

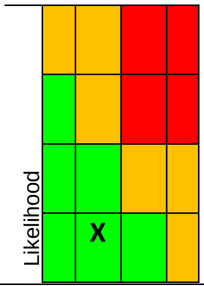
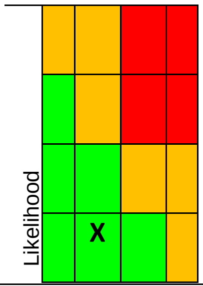
	• False declarations of mileage • False documentation to support allowances • Breaches of authorisation and payment procedures • Abuse of time • Inappropriate acceptance of gifts or hospitality • Non-declaration of interests	signed off by HR Manager • Reconciliation of payroll to BACs payments • Probation periods • Register of Gifts & Hospitality/ Register of Interests • Medical certification for sickness • Request forms to request permission to undertake additional employment • Secondary employment register • Training for managers on disciplinary process • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on intranet • Financial Regulations training for all appropriate staff – completed ***Further actions required*** • *To implement controls to reduce likelihood of false claims*					

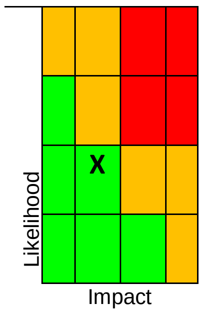
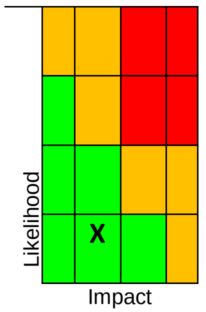
11. INSURANCE FRAUD							
	• False insurance claims	**Controls in place** • Financial Regulations • Anti-Fraud & Corruption Strategy • Claims Handlers • Experienced staff • Alerts on current national trends to insurance team • Prior year information on data base to match to previous claims • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Counter-fraud page on website detailing how public can report fraud • Financial Regulations training for all appropriate staff – completed • National Fraud Initiative reports	**Resources Directorate** **Business Manager - Financial Services**			**GREEN**	**Number of claims received 2016/17 = 39** **Total value of claims settled 2016/17 = £75672**
12. MONEY LAUNDERING							
	• Using the Council to hide improper transactions - linked to organized crime	**Controls in place** • Staff Awareness • Money Laundering policy • Financial Regulations • Training of officers • Upper limit for cash transactions : £5,000 • Whistleblowing Policy • Cashless offices • Legal checks on Right to	**Resources Directorate** **Business Manager - Financial Services**			**GREEN**	

		Buy purchases • Additional controls over NNDR and Council Tax refunds (check payment sources) ***Further actions required*** • *Develop procedure to check financial standing of new businesses* • *Potential for exercise to check to listings to ensure not dealing with contractors with links to serious and organised crime*					
13a. ELECTORAL FRAUD (ELECTIONS)								
	• Fraudulent voting • Fraudulent acts by poll clerks & presiding officers at polling stations • Fraudulent acts by postal vote opening staff • Fraudulent acts by verification / count staff	**Controls in place** • Anti-Fraud & Corruption Strategy • Supervisory roles at counts • Postal votes counts supervised and more rigorous controls • More focus on preventing false applications • Access controls at polling stations & counts • Ballot box controls • Ballot paper account • Insurance • Pre employment checks • Supervisory checks • Application forms scrutinised before processing	**Resources Directorate** **Business Manager - Democratic Services**			**GREEN**	**Any incidents would be raised with the Police via their Single Point of Contact**	

		• Whistleblowing Policy • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on intranet					
13b. ELECTORAL FRAUD (ELECTORAL REGISTRATION)							
	• Fraudulent applications for individual electoral registration (IER) • Fraudulent application for absent voting (postal & proxy) • Fraudulent acts by staff employed as canvassers	**Controls in place** • Anti-Fraud & Corruption Strategy • Verification process through the IER digital service • Supervisory checks on verification failures • Request for evidence letters sent • Application forms scrutinised before processing • Confirmation letters sent to successful applicants	**Resources Directorate** **Business Manager - Democratic Services**			**GREEN**	**Any incidents would be raised with the Police via their Single Point of Contact**

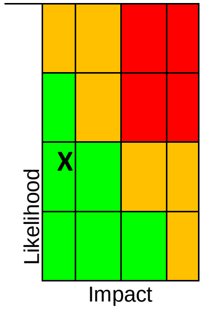
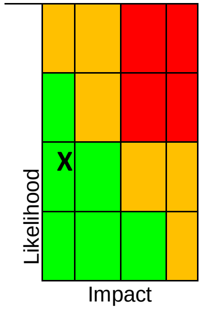
14. DEVELOPMENT MANAGEMENT							
	• Corruption and collusion including: • Inducements • conflict of interest/bribery • Planning - S106, affordability and other areas where officers are checking compliance & fines issued etc • Using Planning Process to increase land values • False representation	**Controls in place** • Supervisory checks by Team Leaders/Manager on planning applications • One to one discussion with all case officers • Open & visible process all cases open to Team leaders & peers (due to past issues and high profile) • Public scrutiny • Planning Committee scrutiny • Pre application advice • Report for all applications and pre-application advice with explanation of grant or refusal • Sign off of completion by Business Manager Development or Senior Planner • Ombudsman (3rd party scrutiny)-planning appeal system • Reconciliation of planning fees • Separation of duties in the fee procedure (receipting, banking, planning application) • Audit trail on fee income • Significant enforcement action-reporting & sign off • Section 106 – separation of duties, legal agreement, triggers for payment monitored,	**Deputy Chief Executive** **Business Manager - Development Management**			**GREEN**	**Number of planning applications determined 2016/17 : 1038**

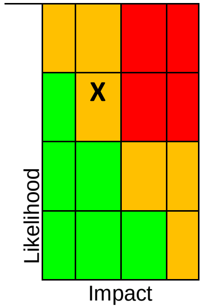
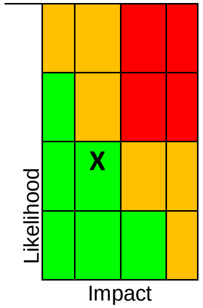
		monitoring group, reconciliation • Constitution including Members conduct re planning • Regular communication with affected parties throughout the process where appropriate • Register of Gifts & Hospitality/Register of Interests • Financial Regulations • Anti-Fraud & Corruption Strategy • Staff counter-fraud training • Code of Conduct (officers & Members) • Internal Audit reviews • Whistleblowing Policy • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on intranet					
15. ECONOMIC & THIRD SECTOR FRAUD							
	Any fraud that involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non-governmental organization: • Fake applications	**Controls in place** • Substantiate authenticity of application • Regular monitoring of delivery • Check & authorisation of grant & loan claims • Separation of duties between grant or loan approval & sign off	**Deputy Chief Executive** **Business Manager - Economic Growth** **Business Manager - Community**			**GREEN**	**National Fraud Authority potential annual fraud losses : 1% or £9k** **Total Think BIG loans amount outstanding to February 2017 - £661k** **Total Think BIG loans granted - £1.447m**

	• Collusion • Misuse of funds • Failure to deliver agreed service	• Regular review of loan processes takes place • Grant criteria • Quotes for work • Grant assessment • Financial Regulations • Anti-Fraud & Corruption Strategy • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • External legal advice • Retentions based on performance • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on intranet	**Sports & Arts Development**				**Total Disabled Facilities Grants awarded 2016/17 : £549k** **Total grants awarded to voluntary sector 2016/17 = £147k**
16. HOUSING FRAUD							
	• Fraudulent application - false information • False homelessness applications - false information • Key selling • Fraudulent succession	**Controls in place** • NSH Approach to Tenancy Fraud document • National Fraud Initiative • Form of identification required from applicants • Proof of residency required • Documents obtained to support claim • Checks on information provided	**Safety Directorate/ Newark & Sherwood Homes** **Chief Executive Newark & Sherwood Homes** **Business Manager - Strategic Housing**			**GREEN**	**Sub-letting tenancy fraud cases in 2016/17 - 3** **No of Council houses approx. - 5422** **Annual rent income approx. - £21.6m**

	• Unlawful sub-letting • Using property as second home • Right to Buy - fraudulent application, valuation, etc.	• Summary check at allocation stage • Declaration and future changes signed by applicant • Confirmation of all information e.g. previous tenancies • Robust tenancy agreement • Robust sign up-info to tenant re rules • Routine tenancy inspections • Using and sharing intelligence – across council • Publicity of impact and consequences • Eviction powers • Home visits • Photographs • Acting on hearsay evidence • Acting on information from other bodies such as police • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Separation of duties • Register of Gifts & Hospitality/Register of Interests • Counter-fraud page on website detailing how public can report fraud • Counter Fraud section on new intranet • Management Agreement • Robust Allocation	**Business Manager - Housing Options**				

		Scheme ***Further action*** • *Develop relationship with between NSH & Council Tax – e.g. single person accounts, to enhance sharing of information in order to have a collaborative approach to fraud detection* • *Meetings between NSDC & NSH* • *Housing Options to reviews SLA's in place to ensure 'counter fraud' is incorporated into these* • *Inclusion of the annual number of tenancy fraud cases in the Council's approved performance monitoring framework scrutinising NSH – this is reported to Members through the Homes and Communities Committee*					

17. FRAUDULENT USE OF COUNCIL ASSETS							
		Controls in Place • Financial Regulations • Anti-Fraud & Corruption Strategy • Guidance for Dealing with Irregularities • Management controls • Induction process • Security policy • User reports e.g. internet, telephone (procurement team monitor usage of ICT assets for potential abuse) • Internet use policy • Access controls • Software audit facility • Code of conduct • Inventory checks • Complex passwords • Separation of duties – eFinancials account set up • Staff counter-fraud training • Internal Audit reviews • Whistleblowing Policy • Counter Fraud section on intranet	**All Directorates** **All Directors & Business Managers**			**GREEN**	

18. CYBER FRAUD							
	• Risk of ransomware attack • Systems unavailability leading to: • reputation loss • service delivery loss including inability to process BACS	**Controls in Place** • IPS/IDS implemented, along with Geo location blocking • Firewalls, email & internet detection software in place • Education programme for all staff with regular reminders • Quarterly scans performed on network • Incident Response Plan in place • Mobile Device Management ***Further actions required*** • *Gain Cyber Essentials accreditation*	**Customers Directorate** **Business Manager - ICT**			**AMBER**	**This area remains emerging and rapidly evolving risks – difficult to assess exposure**

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AUDIT & ACCOUNTS COMMITTEE
25 APRIL 2018

WORK PLAN

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
19 June 2017	Biannual Review of the Effectiveness of the Internal Audit Function	Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
20 July 2017	Training session on Statement of Accounts	Nicola Pickavance	Ensure that the Committee has the appropriate skills to be able to review the Council's Statement of Accounts and consider the integrity of financial reporting
26 July 2017	Briefing session on the role of the Committee, and the role of Internal and External Audit	Nicky Lovely	Ensure that the Committee has the appropriate skills to perform its assurance and governance role
26 July 2017	Treasury Management Outturn Report 2016/17	Tara Beesley	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	External Audit Annual Governance Report 2016/17	Jonathan Gorrie/Helen Brookes (KPMG)	To gain assurance that the Council's Statement of Accounts are a true and fair representation of the Council's financial performance for the previous financial year and financial standing as at the Balance Sheet date, and that the Council has effective arrangements for achieving Value for Money
	Statement of Accounts 2016/17 & Annual Governance Statement	Nicky Lovely / Nicola Pickavance	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately

			represents governance arrangements, that future risks are identified, and that arrangements in place support the achievement of the Council’s objectives
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Internal Audit Report 2016/17	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Gain assurance that the Council’s Annual Governance Statement accurately represents governance arrangements, that future risks are identified and that governance arrangements support the achievement of the Council’s objectives
	Results of the Review of the Assessment of Effectiveness of the Internal Audit Function	Nicky Lovely	Gain assurance that the Internal Audit function is operating effectively and that an action plan is in place to address any required improvements
	Report on interim arrangements for S151 Officer		Gain assurance that appropriate arrangements re financial governance are in place
	Audit Committee Work Programme	Nicky Lovely	
29 November 2017	Treasury Performance half-yearly report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Audit Letter 2016/17	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance on the Council’s Statement of Accounts and arrangements for achieving Value for Money
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Responses to questions raised at previous meeting	Nicky Lovely	

	Audit Committee Work Programme	Nicky Lovely	
29 November 2017	Treasury Management Training Session	Arlingclose Ltd	Ensure that the Committee has the appropriate skills to be able to review the Council's Treasury Management Strategy and performance reports
7 February 2018	Draft Treasury Strategy 2018/19	Andrew Snape	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
	Draft Capital Strategy 2018/19	Andrew Snape	Outlines the principles and framework that shape the Council's capital proposals
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	External Certification of Grant Claims and Returns 2016/17	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that claims and returns have been managed appropriately,
	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place
	Review of significant internal control issues highlighted in the Annual Governance Statement	Nick Wilson	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Draft Annual Internal Audit Plan 2018/19	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	Responses to questions raised at previous meeting	Nick Wilson	
	Audit Committee Work Programme	Nick Wilson	
25 April 2018	Statement of Accounting Policies	Andrew Snape	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	Andrew Snape	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
	Property, Plant and Equipment Valuation Assumptions	Andrew Snape	Gain assurance that the assumptions used

			by the Council's valuers to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Counter-Fraud Activity Report	Nick Wilson	Gain assurance that counter-fraud activity is appropriately targeted and effective
	External Audit Plan for 2017/18 Accounts	Jonathan Gorrie/Helen Brookes (KPMG)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts, Value for Money arrangements and Grant claims
	Fraud Risk Assessment	Nick Wilson	Gain assurance that the Council understands its fraud risks and that actions are put in place to address them
	Responses to questions raised at previous meeting	Nick Wilson	
	Audit Committee Work Programme	Nick Wilson	
25 July 2018	Treasury Management Outturn Report 2017/18	Tara Beesley	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
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	Statement of Accounts 2017/18 & Annual Governance Statement	Nick Wilson / Andrew Snape	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

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