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Tuesday, 20 November 2018

Chairman: Councillor Mrs S Michael

Members of the Committee:

Councillor B Crowe
Councillor Mrs G Dawn
Councillor P Handley
Councillor D Payne
Councillor B Wells

Please note that there is a Treasury Management training session for all Members at 10am in the Civic Suite- with the Council's Treasury Management Advisor, Arlingclose.

MEETING: Audit & Accounts Committee

DATE: Wednesday, 28 November 2018 at 11.00 am
Following the Treasury Management training session at 10am

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.

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.

AGENDA

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Wednesday 6 February 2019, 10am, Civic Suite, Castle House.	

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, 25 July 2018 at 10.00 am.

PRESENT: Councillor Mrs S Michael (Chairman)
Councillor B Crowe, Councillor D Payne and Councillor B Wells

APOLOGIES FOR Councillor P Handley
ABSENCE:

47 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.

48 DECLARATION OF ANY INTENTIONS TO RECORD THE MEETING

There were no declarations of intention to record the meeting.

49 MINUTES OF THE PREVIOUS MEETING

That the Minutes of the meeting held on 25 April 2018 be approved as a correct record and signed by the Chairman.

50 TREASURY MANAGEMENT OUTTURN REPORT 2017/18

The Business Manager- Financial Services, presented the Treasury Outturn report for 2017/18. The Treasury Strategy and Prudential Indicators for 2017/18 were approved by Council on 9th March 2017 and the Outturn report was the last report for the financial year, required by the CIPFA Code. It had been prepared on the basis of the draft final accounts

He drew the attention of the Committee to one prudential indicator which had been breached during the period. The prudential indicator 'Interest Rate Exposure' limit was exceeded was £2.181m for one day during February 2018. The timing of receipt of income meant that excess funds were receipted into the bank account, which needed to be invested, as the money would have been at greater risk due to breaching the counterparty investment limit should they not have been. This arose as there was a cash limit on this indicator, rather than a percentage basis, as set within the Treasury Management Strategy approved at Council on 9 March 2017.

The Council had complied with all other indicators.

AGREED (Unanimously) that the Treasury Management outturn position be noted.

51 EXTERNAL AUDIT GOVERNANCE REPORT 2017/18

The Committee considered the External Audit Governance Report 2017/18. John Cornett, Director- KPMG, was in attendance to present the report. The Committee considered the report and heard about a material error that had been corrected regarding the revaluation of Kelham Hall, which should have been undertaken when it was sold.

Other risks highlighted were considered and the value for money opinion of unqualified was also detailed in the report. The financial resilience of the authority had been found to be sound and well based. Mr Cornett expressed his thanks to officers for their work and assistance and also the quality of the working papers provided for the audit. The accounts had been produced within the new timescale by the statutory deadline of 31 May 2018.

On behalf of the Committee and Officers, the Chairman expressed thanks to KPMG.

AGREED that:

- a) the Committee receives the External Auditors Annual Governance Report for 2017/18;
- b) the Committee notes the adjustments to the financial statements set out in the report; and
- c) the letter of representation signed by the Director of Resources – S151 Officer and the chair of the committee, be approved.

52 STATEMENT OF ACCOUNTS 2017/18 AND ANNUAL GOVERNANCE STATEMENT

The Committee considered the Statement of Accounts and Annual Governance Statement 2017/18. The Committee had previously considered both documents in depth at a workshop session with Officers.

The Business Manager- Financial Services explained that a number of amendments had been made in relation to the revaluation of Kelham Hall. Members considered the amendments.

AGREED that

- a) Members approve the Annual Governance Statement for the financial year ended 31 March 2018;
- b) Members approve the Statement of Accounts for the financial year ended 31 March 2018; and
- c) Members note that as per the previous report the s151 Officer and the Chairman have signed the Letter of Representation.

53 INTERNAL AUDIT PROGRESS REPORT 2018/19

The Committee considered the Internal Audit Progress report. The Committee noted that three audits had been issued during the period, which were: Procurement – Substantial Assurance; Health and Safety – Substantial Assurance; and Business Continuity – Limited Assurance. The Committee considered the management response in relation to the limited assurance given to the Business Continuity audit.

Members considered the details of audits in progress and of work undertaken by the Internal Auditors in relation to the Mansfield and District Joint Crematorium Committee accounts. The Committee heard that Officers were continuing to work with Mansfield and Ashfield District Councils in relation to an issue surrounding VAT and expenditure required to update equipment at the crematorium.

In course of the discussion the Committee heard a concern, raised by a member of the Committee, regarding use of hybrid mail systems and the potential delay this may lead to in receiving mail. The Director-Resources agreed to consider the issue and update the Committee.

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

54 ANNUAL INTERNAL AUDIT REPORT 2017/18

The Committee considered the Annual Internal Report 2017/18. The Committee heard that in areas of governance, risk, internal control and financial control the Council was performing well. Members considered detail of the overall combined assurance on critical activities and noted that there was 66% areas of high assurance and 34% and medium assurance. There were no areas of limited assurance.

The report also contained details of changes to the audit plan, recommendations made and the number implemented, other additional work undertaken and the delivery of the plan. Members heard that officers were working to improve the audit process with Business Managers to better respond to work pressures.

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

55 COMMITTEE WORKPLAN

The Business Manager- Financial Services presented the committee workplan.

AGREED that the Committee workplan be noted.

56 DATE OF NEXT MEETING

Wednesday 28 November 2018 at 10am. A training session for Members of the Committee would be held prior to the meeting, at 9am.

Meeting closed at 10.55 am.

Chairman

AUDIT AND ACCOUNTS COMMITTEE

28TH NOVEMBER 2018

TREASURY MANAGEMENT 2018-19 MID YEAR REPORT

1. Purpose of Report

- 1.1. This report provides an update on the Council's treasury activity and prudential indicators for the first half of 2018/19. As indicated in the report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to the investment activity, with priority being given to security and liquidity over yield.

2. Background Information

- 2.1. The Council's Treasury Management Strategy for 2018/19 was approved by Full Council on 8 March 2018. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's Treasury Management Strategy.
- 2.2. Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England MHCLG published its revised Investment Guidance which came into effect from April 2018.
- 2.3. The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments.
- 2.4. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures that this Council is embracing best practice in accordance with CIPFA's recommendations.
- 2.5. Treasury Management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

3. Economic Background

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

4. **Regulatory Updates**

- 4.1. **International Financial Reporting Standard (IFRS) 9 – Financial Instruments:** The new standard presents revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment.
- 4.2. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.
- 4.3. The standard aims to address concerns about ‘too little, too late’ provisioning for loan losses, and will accelerate recognition of losses.
- 4.4. The accounting treatment of the expected credit loss model for the financial assets depends on the business model the initial investment was made on. There are three options with regard to the business model:
- Achieve objectives by collecting contractual cash flows;
 - Achieve objectives by both collecting contractual cash flows and selling assets; and
 - Achieve objectives by any other means that collecting cash flows.
- 4.5. Once the Business Model has been identified this then will identify the accounting treatment as either Amortised Cost, Fair Value through Other Comprehensive Income or Fair Value through Profit/Loss. Officers have prepared workings papers for all the current live investments that were held before IFRS9 was implemented, on the business model of ‘achieve objectives by collecting contractual cash flows’ and confirmed with our auditors, Mazars, that the impact would be immaterial. The table below shows a full instrument by instrument breakdown and the Business Model that has been proposed .

Counterparty	Balance at 31.3.18	Business Model
<u>Bank Deposit/Notice Account</u>		
Santander	£5,000,000	achieve objectives by collecting contractual cash flows
Handelsbanken	£5,000,000	achieve objectives by collecting contractual cash flows
Lloyds	£4,900,000	achieve objectives by collecting contractual cash flows
<u>Money Market Fund</u>		
Goldmans Sachs	£343,000	achieve objectives by collecting contractual cash flows
Deutsche Bank	£295,000	achieve objectives by collecting contractual cash flows
Invesco	£5,934,000	achieve objectives by collecting contractual cash flows
CCLA	£3,000,000	achieve objectives by collecting contractual cash flows
<u>Other</u>		
Trade Receivables	£4,666,417	achieve objectives by collecting contractual cash flows

- 4.6. Each new financial instrument that the Council enters into will now need to be assessed at the point of inception. Each instrument will be reviewed on an individual basis to find the correct business model, a framework will be included within the Investment Strategy and the

Treasury Management Strategy. This will then be reported back to this Committee.

- 4.7. MHCLG consulted on statutory overrides relating to the IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognised that the requirement in IFRS 9 for certain investments to be accounted for as fair value through profit and loss may introduce “more income statement volatility” which may impact on budget calculations. The consultation proposed a time-limited statutory override and sought views whether it should be applied only to pooled property funds.

5. Treasury Management Strategy Statement and Annual Investment Strategy update

- 5.1. The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Full Council on 8 March 2018. The indicator relating to Interest Rate Exposure was originally set based on cash flow forecasts of the total value of investments held on any given day. Due to the actual profiling of payments and receipts, officers feel that a percentage basis rather than a set value would allow this indicator to be managed more effectively. Below is the proposed change to the approved Prudential Indicator for the Interest Rate exposure which is contained within the TMSS 2018/19.

5.2. Current Indicator

	2018/19	2019/20	2020/21
	£m	£m	£m
<u>Fixed Rate</u>			
Borrowing	124.2	124.2	124.2
Investments	-5	-5	-5
Net Upper limit on fixed rate exposure	119.2	119.2	119.2
<u>Variable Rate</u>			
Borrowing	31	31	31
Investments	-37.3	-37.3	-37.3
Net Upper Limit on variable rate exposure	-6.3	-6.3	-6.3

5.3. New Proposed Indicator

	2018/19	2019/20	2020/21
<u>Fixed Rate</u>			
Borrowing	100%	100%	100%
Investments	75%	75%	75%
<u>Variable Rate</u>			
Borrowing	20%	20%	20%
Investments	100%	100%	100%

6. Local Context

- 6.1. At 31/3/2018 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £125m, while usable reserves and working capital which are the underlying resources available for investment were £44.8m.

The table below shows the revised estimates for capital expenditure and the changes since the Capital Programme was agreed within the Capital Programme budget on 8 March 2018.

Capital Expenditure	2018/19 Capital Budget approved 8 March 2018 £m	Current Expenditure £m	2018/19 Revised Estimate £m
General Fund Expenditure	5.047	1.890	12.526
HRA Expenditure	17.614	5.585	19.878
Total Capital Expenditure	22.661	7.475	32.404

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

The increase from the Budget approved 8 March 2018 relates to approved capital carry forward requests and approved variations to the capital programme.

- 6.2. At 31/3/2018, the Council had £89m of borrowing and £24m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- 6.3. The Council has an increasing CFR over the next 2 years due to the Capital Programme and there may be a requirement to borrow up to £6.6m over the forecast period. However, if reserve levels permit, internal borrowing will be considered.

7. Borrowing Strategy

- 7.1. At 30/9/2018 the Council held £89m of loans, as part of its strategy for funding previous years' capital programmes.

7.2. **Borrowing Activity in 2018/19**

	Balance on 01/04/2018 £m	Balance on 30/09/2018 £m
Short Term Borrowing	7.815	7.562
Long Term Borrowing	81.580	81.580
TOTAL BORROWING	89.395	89.142
Other Long Term Liabilities	0.224	0.224
TOTAL EXTERNAL DEBT	89.619	89.366
CFR	124.681	124.681
Under / (over) borrowing	35.062	35.315

- 7.3. As the Council is in a significant under borrowed position, as per the table in 7.2, there may be a requirement during the remainder of the financial year where new borrowing is required. Any new borrowing will be within the approved Treasury Management Borrowing Strategy framework and will have been reviewed for cost effectiveness as whether to borrow shorter term or long term in relation to interest rate forecasts.
- 7.4. **PWLB Certainty Rate and Project Rate Update:** The PWLB introduced a 'Certainty Rate' for borrowing in 2013 which is 0.20% below the PWLB standard rate. The rate is made available for a 12 month period, in return for the Council providing advance information about its capital investment plans. During September 2018 the Council submitted its application to CLG via the new certainty rate form to access this reduced rate for a further 12 month period from 01/11/2018.
- 7.5. **LOBOs:** The Council holds £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of the £3.5m of LOBOS had options during the last 6 months, none of which were exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.
- 7.6. **Internal borrowing:** For the Council, the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding of capital expenditure that has not been funded from grants and other resources. This has lowered overall treasury risk by reducing both external debt and temporary investments. However this position will not be sustainable over the medium term as the Council needs to use reserves for the purpose they were set aside for, and external borrowing may need to be undertaken.
- 7.7. **Debt rescheduling:** The premium charge for early repayment of PWLB debt remains relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken or is proposed during the rest of the financial year as a consequence.

8. Investment Activity

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

8.2. Investment Activity in 2018/19

Type of Investment	Balance on 01/04/2018 £m	Balance on 30/09/2018 £m	Average Interest Rate
Short term Investments:			
Fixed Term Deposits	9.900	9.900	0.68%
Money Market Funds	9.572	24.583	0.61%
Bank Call Account	5.000	0.050	0.20%
Total Short term Investments	24.472	34.533	

Long term Investments	0	0	
TOTAL INVESTMENTS	24.472	34.533	
Increase/ (Decrease) in Investments		10.061	

- 8.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

9. Non-Treasury Investments

- 9.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return or regeneration purposes. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return or regeneration purposes.
- 9.2. As per section 4.5, these Non-Treasury Investments have also been reviewed for the impact of IFRS9, see breakdown below, and will need approval on the business model the investments are held under;

Counterparty	Balance at 31.3.18	Business Model
Growth Investment Fund	£597,267	achieve objectives by collecting contractual cash flows
Loans to Housing Associations	£22,994	achieve objectives by collecting contractual cash flows
Loans to Parish Councils	£18,570	achieve objectives by collecting contractual cash flows

These investments generated £0.023m of investment income for the Council after taking account of direct costs, representing a rate of return of 4.06%.

10. Prudential Indicators

10.1. The Council can confirm that it has complied with its Prudential Indicators for 2018/19, which was set on 8 March 2018 as part of the Council's Treasury Management Strategy Statement.

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

£m	Approved 2018/19 £m	Actual to 30/09/2018 £m
<u>Fixed</u>		
Upper Limit for Exposure on Debt	124.2	86.1
Upper Limit for Exposure on Investments	-5	0
Net Fixed Exposure	119.2	86.1
<u>Variable</u>		
Upper Limit for Exposure on Debt	31	3.1
Upper Limit for Exposure on Investments	-37.3	-34.5
Net Variable Rate Exposure	-6.3	-31.4

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

	Upper Limit %	Actual at 30/09/18 £	Actual at 30/09/18 %	Compliance
Under 12 months	15%	£4.5m	5.2%	Yes
12-24 months	15%	£2.0m	2.3%	Yes
2-5 years	30%	£13.6m	15.8%	Yes
5-10 years	100%	£22.7m	26.4%	Yes
Over 10 years	100%	£43.3m	50.3%	Yes

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

10.5. **Authorised Limit and Operational Boundary for External Debt.** The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The s151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2018/19.

	Approved Operational Boundary 2018/19 £m	Authorised Limit 2018/19 £m	Actual External Debt 30/09/18 £m
Borrowing	128.3	128.4	89.1
Other Long Term Liabilities	0.4	0.6	0.2
Total	128.7	129.0	89.3

11. Outlook for the remainder of 2018/19

11.1. **Appendix B** gives a summarised outlook for the rest of the current financial year from our Treasury Consultants, Arlingclose.

12. Banking Arrangements

12.1. Lloyds bank plc, the Councils current banking service providers, has reviewed its contractual arrangement with its local authority customers, the review concluded that each local authority is to enter into an agreement where a set off or transfer of credit balances in accounts held with the bank, in or towards the satisfaction of any liabilities can be carried out.

12.2. The Council has been successfully operating this process since transferring over to Lloyds in 2017 and the agreement allows the Council to continue to have credit and debit balances across all of its Lloyds bank accounts.

13. RECOMMENDATIONS that:-

- (a) that members approve the new Prudential Indicator for Interest Rate Exposure contained within the Treasury Management Strategy as per section 5 and recommend to full Council on 11 December;**
- (b) the treasury activity be noted; and**
- (c) the Prudential Indicators detailed in Section 10 of the report be noted.**
- (d) the business model applied to all current investment re IFRS9, section 4.5 and section 9.2, is to 'achieve objectives by collecting contractual cash flows'.**
- (e) the Lloyds Set Off agreement as detailed at 12.1 and 12.2 is noted and approved.**

Background Papers

Nil.

For further information please contact Andrew Snape, Assistant Business Manager – Financial Services on extension 5523.

N Wilson
Business Manager Financial Services

External Context

Economic background: Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August *Inflation Report*, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.

The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.

The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU, which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

Financial markets: Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the net change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher money market rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

Credit background: Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.

The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

Outlook for the remainder of 2018/19

Having raised interest rates in August 2018 to 0.75%, the Bank of England’s Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

Arlingclose’s central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average.

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca:	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

AUDIT AND ACCOUNTS COMMITTEE

28 NOVEMBER 2018

EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2017/18

1.0 Purpose of Report

- 1.1 To present the External Auditor's Annual Audit Letter for 2017/18 for Newark & Sherwood District Council.
- 1.2 The Annual Audit Letter summarises the key findings from the external audit work carried out by KPMG in 2017/18. It covers the 2017/18 Statement of Accounts and the Value for Money conclusion for the same year.

2.0 Background Information

- 2.1 KPMG presented details of the findings from the audit of the 2017/18 financial statements in their Annual Governance Report at the 25th July 2018 meeting of the Audit & Accounts Committee, and informed Members that they proposed to give an unqualified opinion on the statements.
- 2.2 At the same meeting KPMG also proposed to issue an unqualified opinion on the council's arrangements to secure economy, efficiency and effectiveness – the Value for Money (VfM) conclusion.
- 2.3 Unqualified audit opinions for both of these pieces of work were issued on 31st July 2018.

3.0 RECOMMENDATIONS that:-

The Committee consider the External Auditor's Annual Audit Letter for 2017/18

Background Papers

External Auditor's Annual Governance Report 2017/18
N&SDC 2017/18 Opinion and Value for Money Conclusion

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

Nick Wilson
Business Manager – Financial Services



Annual Audit Letter 2017/18

**Newark and Sherwood District
Council**

August 2018

A group of people in business attire, including a man with grey hair and a woman with dark hair, are looking down at documents. The image is partially obscured by a blue horizontal band containing text.

Section one

Summary for Audit and Accounts Committee

Section one:

Summary for Audit and Accounts Committee

This Annual Audit Letter summarises the outcome from our audit work at Newark and Sherwood District Council ("the Authority") in relation to the 2017-18 audit year.

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

This is KPMG's last Annual Audit Letter to the Authority. We would like to take this opportunity to thank the Authority's officers and the members of the Governance and Audit Committee for their support throughout the six years of our audit appointment.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £1 million which equates to around 2% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Governance and Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £50,000.

We did not identify any material misstatements and there were no adjusted misstatements identified during our audit that we are required to report to you.

The working papers provided this year have been of a good standard and were available at the start of the audit visit. The finance team responded promptly to any requests for additional information or explanation and were available throughout the audit visit to answer. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress within the allocated timeframe.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit.
- **Valuation of PPE** – the Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. The Authority transferred Kelham Hall to Assets Held for Sale, during the year 2017-18. However, the asset was not revalued to fair value before the transfer as is required by accounting standards. Thus there was an error of £1.942m in the financial statements which the authority agreed to amend in its published accounts.
- **Pensions Liabilities** – the net pension liability represents a material element of the Authority's balance sheet. There is a risk that the assumptions and methodology used in the actuarial valuation of the Authority's pension obligation are not reasonable which could have a material impact on the net pension liability accounted for in the financial statements. We did not identify any matters to report to you in relation to this risk.

Section one:

Summary for Governance and Audit Committee (cont.)

Faster Close – the bringing forward of the national year-end timetable represented a risk to the completion of the audit by the 31 July deadline. We completed our audit and issued our opinion on the 31 July deadline.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any significant issues.

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risk:

- **Financial Resilience** - As a result of reductions in central government funding, and other pressures, the Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. As part of our additional risk based work, we reviewed the arrangements the Authority has in place in these areas and for ensuring its continuing financial resilience.

We were satisfied that there were adequate arrangements in place during 2017-18 and there were no significant matters relating to these risk areas which prevented us from giving an unqualified VFM conclusion.

High priority recommendations

We raised no high priority recommendations as a result of our 2017-18 work.

Certificate

We issued our certificate on 31 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Section one:

Summary for Governance and Audit Committee (cont.)

Audit fee

The scale fee set by Public Sector Audit Appointments Limited (PSAA) for the 2017-18 audit is £48,329 plus VAT. We also plan to charge an additional fee of £2,398 due to additional work undertaken in relation to the valuation of Kelham Hall. The Authority had transferred Kelham Hall to Assets Held for Sale, during the year 2017-18. However, the asset was not revalued to fair value before the transfer as required by accounting standards.

The PSAA scale fee for 2016-17 was £48,329 and we charged additional fee in that year of £1,637 in relation to additional work we had to undertake on the pension fund triennial revaluation in 2016/17.

Our additional fees for 2017/18 are still subject to final determination by Public Sector Audit Appointments.

Further detail is contained in Appendix 2.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.



Appendices

Appendix 1:

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

Certification of Grants and Returns

This report summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

2018

January

February

March

April

May

June

July

August

September

October

Appendix 2:

Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

External audit

The scale fee set by Public Sector Audit Appointments Limited (PSAA) for the 2017-18 audit is £48,329 plus VAT. We also plan to charge an additional fee of £2,398 due to additional work undertaken in relation to the valuation of Kelham Hall. The Authority had transferred Kelham Hall to Assets Held for Sale, during the year 2017-18. However, the asset was not revalued to fair value before the transfer as required by accounting standards.

The PSAA scale fee for 2016-17 was £48,329 and we charged additional fee in that year of £1,637 in relation to additional work we had to undertake on the pension fund triennial revaluation in 2016/17.

Our addition fee for 2017/18 are still subject to final determination by Public Sector Audit Appointments.

Certification of grants and returns

Under our terms of engagement with PSAA we undertake prescribed work in order to certify the Authority's 2017-18 housing benefit grant claim. This certification work is still ongoing, and the certification deadline is 30 November 2018. The PSAA scale fee for this work is £5,525 and the final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We charged £3,500 for the independent assurance on the 2016-17 Pooling of Housing Capital Receipts Return. This work was not related to our responsibilities under the Code of Audit Practice and was agreed through a separate Engagement Letter.



The key contacts in relation to our audit are:

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Director

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. 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 AND ACCOUNTS COMMITTEE
28th NOVEMBER 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 October 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 2018/19 against the agreed audit plan.

3.0 RECOMMENDATION

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

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nick Wilson
Business Manager Financial Services

Internal Audit Progress Report



Newark and Sherwood District Council – October

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Details of Limited / Low Assurances
Details of Overdue Actions
2018/19 Audit Plan to Date

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This report has been prepared solely for the use of Members and Management of Newark and Sherwood District Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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

Introduction

The purpose of this report is to:

Provide details of the audit work during the period April 2018 to October 2018
Advise on progress with the 2018/19 plan
Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have completed 9 audits:

- 7 to final assurance reports
- 2 other reports - Consultancy

Assurances

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

- ICT – PCIDSS - Limited
- IR35 (Intermediaries Legislation) - Substantial
- S106 – Substantial
- Risk Management - Substantial
- Active4Today Creditors - Substantial
- Key Controls - Substantial
- ICT – Meritec System – Substantial

Consultancy

The following consultancy work has been completed:-

- Corporate Policy
- Contract Management

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

0
HIGH
ASSURANCE

6
SUBSTANTIAL
ASSURANCE

1
LIMITED
ASSURANCE

0
LOW
ASSURANCE

Limited Assurance

The Council has not progressed the required documentation and evidence to support the annual PCI DSS compliance assessment. As a result the Council is not PCI DSS compliant and we can only give a limited assurance opinion at this time.

Additional pressures have been experienced with the Council relocating its premises, which diverted a lot of IT resources, notably those of the Assistant IT Manager who led on PCI DSS compliance. Shortly thereafter the Assistant IT Manager then left the Council. This position has not been filled, although PCI DSS compliance has now been picked up by a member of staff within the IT section.

The Council may have access, through its acquiring bank, to an online portal that could help with the PCI DSS compliance process. We have raised this matter with both the IT and Finance teams and have made a recommendation to determine whether this online portal is available to the Council as this would likely greatly simplify compliance work.

Our recommendations from the previous audit review, undertaken in May 2016, are largely restated with requirements to:-

- Confirming the availability of an online portal with the acquiring bank to assist PCI DSS compliance. If this is not available, then annual formal project arrangements are put in place to ensure a staged approach to compliance is undertaken.
- Annually identify and document all of the system components within the Council that interact with cardholder data. Determining this scope is foundational to complying with PCI DSS. Without a clear understanding of scope, the Council cannot validate its boundaries and would not know where to apply the requirements.
- Complete the relevant self-assessment questionnaire (SAQ). The SAQ is designed as a self-validation tool to assess security for cardholder data. The Self-Assessment Questionnaire includes a series of yes-or-no questions. If an answer is "no", the Council may be required to state the future remediation date and associated actions to resolve to a "yes".

Management Comments

- ICT accept the recommendations included within the report and will give appropriate focus and commitment to addressing the issues to complete the compliance.

Substantial Assurance

IR35

Overall, the arrangements in place ensure that the IR35 regulations are complied with and management continue to explore and implement measures that will enhance full compliance. Our assurance is supported through a number of areas of good practice including:-

- Policy and brief guidance notes are in place
- HMRC's online toolkit is used to check the employment status of the workers or contractors engaged.
- Intermediaries are notified the outcomes of the employment status checks.
- HR keeps a register of IR35 engagements across the Council and ensures ongoing dialogue with the Business Managers.

Currently there are no engagements on the IR35 register which have been assessed as employees of the Council that require the collection and submission of the related tax and NICs to HMRC.

An ongoing review of the employment status for new and existing Personal Service Companies within each Business Unit and reporting the outcomes promptly to HR would ensure that an accurate and complete IR35 register is maintained and enhance the assurance arrangement.

Overall, the processes in place for managing S106 income collection and expenditure are operating sufficiently ensuring effective management of the activity and continual development. The funds are used in accordance with the agreements. This is supported through a number of areas of good practice including:-

- Ongoing monitoring of the triggers to enable invoicing
- Monitoring of the receipts and expenditure for each scheme
- Senior Management oversight of the
- Receipts and expenditure accurately recorded within the General Ledger
- Close working relationship between the Infrastructure and S106 Officer and the Assistant Accountant
- Formal S106 agreements for the identified development activities

S106

Areas where some improvements are necessary include:-

- Provision of reports to the relevant committees presenting financial and activity performance.
- Accurate recording of the trigger information on the database.
- Retention of the indices used for the calculation of inflation

We have provided substantial assurance on the arrangements as most aspects are managed well. However, it is borderline limited as we identified several areas where significant improvements are necessary to strengthen safe working environments.

Substantial Assurance

Risk Management

Overall, the Risk Management arrangement is adequately managed and the related processes currently in place are operating effectively to reduce the impact of the risk. This is supported through a number of areas of good practice including:-

- Established and well attended Risk Management Group
- Corporate Management Team (CMT) involvement in the risk workshops setting the tone from the top
- Established risk registers
- Risks are considered when developing key policies and in decision making
- Knowledgeable staff

We identified some areas where improvements are necessary to enhance the controls, including:-

- Producing regular risk management reports for the Audit and Accounts Committee to support their oversight role
- Establishing a risk maturity target level
- Ensuring involvement of appropriate committees when reviewing and approving the Risk Management Strategy
- Reviewing responsibilities within the risk management policy to ensure they are clearly defined
- Timely review of the risk registers, completion of the risk assessments and risk actions
- Incorporating risks associated with the Council's subsidiary companies, partnerships and joint working arrangements within the risk registers.
- Reviewing the resources allocated for the risk management functions

The systems and processes put in place will ensure that creditors are processed and paid correctly. There are several authorisation and checking processes which ensure that invoices are entered fully and paid. Areas of good practice include:-

- System restrictions in place enforcing separation of duties
- Management checking throughout the various processes
- Knowledgeable and experienced staff
- Documentation maintained supporting the payments and authorisation processes

We did identify some areas where improvements are required. These include:-

- Reviewing access to the financial system and ensuring that any changes are authorised
- Amending the batch control header sheet to record accountability and include explanation of differences
- Checking of the payment batch file, particularly high values
- Ensuring the security of the BACS download file

Active4 Today Creditors

Substantial Assurance

The Council has good processes and sufficient key controls in place which ensure that the financial systems reviewed operate effectively protecting the business from increased exposure to fraud and error. We have identified some areas where further improvements are necessary:-

Creditors

- Amendments to the creditor's bank account details are authenticated or confirmed before any payment is made.

Debtors

- Formalising the arrangements when setting up debtor accounts and maintaining a record of any supporting documentation
- Establishing a sundry debtors collection target
- Ensuring correct balance for Trade Waste debtors is held in the General Ledger
- Accurately updating write-offs on the General Ledger.

Payroll

- Ensuring the authorised signatories send the accompanying emails supporting the digitally signed documents and both are retained.

Treasury Management

- Regularly reviewing and updating the Treasury Management manual

Council Tax and NNDR

- Ensuring the number of Council Tax and NNDR bills printed and despatched are reconciled to those expected by the Council and discrepancies identified are corrected.

The Council's relationship with Meritec and the development of systems on its ESB platform is an on-going and developing one. Our assessment of the Council's development of applications on the Meritec ESB platform is that there is a substantial level of assurance that the use of Meritec has resulted, and will continue to result, in improved service delivery arrangements in line with the Council's Digital Strategy. Key areas supporting this include:-

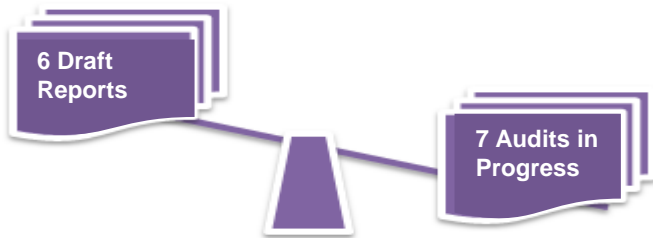
- Effective management involvement and oversight of the development of applications which is in line with the Council's Digital Strategy
- Developments are delivered by a small number of staff working closely together with the active input of users
- Good engagement between Meritec and Council officers

There are a number of actions the Council could take that would give it greater assurance over the security and resilience of its systems and data, which are hosted remotely on Meritec servers, and to ensure that systems developed on the Meritec ESB platform continue to contribute effectively to the Council's vision as captured in the Digital Strategy.

The Council might also wish to consider whether or not a risk register be created for the on-going Meritec ESB development programme to ensure potential risks and mitigating actions are captured and managed.

Key Controls

ICT Meritec System



Audits reports at draft

We have 6 audit's at draft report stage:

- Economic Development
- CCTV
- ICT Cyber Security
- Newark Cattlemarket
- Creditors
- Assurance

These will be reported to the committee in detail once finalised.

Work in Progress

We also have 7 audits in progress :

- Gilstrap
- Council Offices Gateway review
- HRA Self Financing Business Plan
- Environmental Protection
- NSDC Companies
- Development Company
- Brexit

Details of these can be seen in the 2018/19 plan at appendix 4.

Audits planned for quarter 3 include:

- Emergency Planning
- IT Infrastructure
- Payroll
- Commercialisation
- Key Controls
- Combined Assurance
- Street Cleansing
- Counter Fraud
- Follow-ups

Other Work Completed

We have completed the first review of implemented actions . From the audit work undertaken, we were pleased to report that all six recommendations reviewed have been implemented and relevant business units have retained sufficient evidence which support the actions taken.



Benchmarking



Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

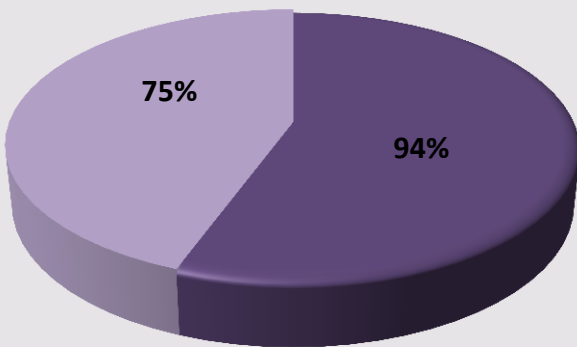
Performance on Key Indicators

100%

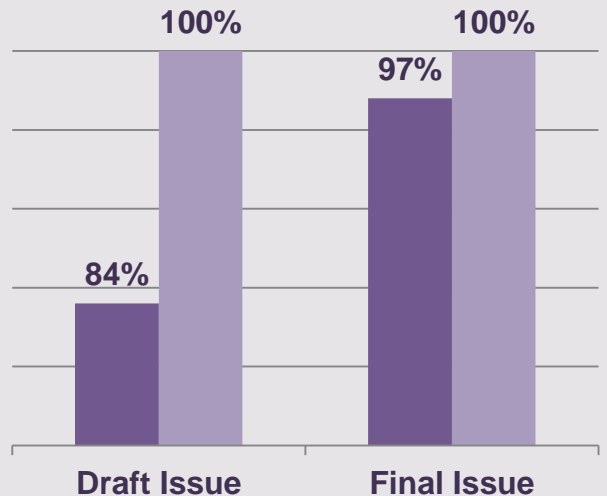
Rated our service Good to Excellent

0%

Span – Draft report within 2 months



■ 2017/18 ■ 2018/19



■ 2017/18 ■ 2018/19

High

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

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

Our critical review or assessment on the activity gives us a
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

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.

PCIDSS

Limited Assurance

Current Rating (R-A-G)	Recommendations (All High Priority)
Risk 1 - Management arrangements for progressing PCI DSS compliance are not effective.	
Recommendations Implemented	0
Recommendations Outstanding	1
Risk 2 - Failure to comply with PCI DSS	
Recommendations Implemented	0
Recommendations Outstanding	2

Background and Context

PCI DSS is the Payment Card Industry Data Security Standard. This is a worldwide standard that was set up to help businesses process card payments securely and reduce card fraud. It does this through tight controls surrounding the storage, transmission and processing of cardholder data that businesses handle. PCI DSS is intended to protect sensitive cardholder data.

PCI DSS is a recognised standard comparable to other information security frameworks such as ISO:27001. Compliance with the PCI DSS standard will help ensure that payment card data is secure and adopting the standard more widely throughout the organisation will help ensure the Council has increased resilience against threats to all of its data.

If an organisation loses card data and is not PCI DSS compliant then there is the potential for financial penalties to be imposed such as:

- fines for the loss of this data
- fraud losses incurred against the cards involved
- banks operational costs associated with replacing the accounts.

Scope

An earlier audit report on PCI DSS compliance, issued in May 2016, gave a limited assurance opinion. This review has focused on evaluating the progress made on the recommendations within that report and the assurance level that can now be given.

The Council should annually self-validate its PCI DSS compliance. Should a card data breach occur then the bank may investigate and determine whether the Council's assessment of its compliance was accurate. In undertaking our assessment we have therefore adopted a strict interpretation of the guidance provided by the Payment Card Industry Security Standards Council.

Executive Summary

We found that the Council has not progressed the required documentation and evidence to support the annual PCI DSS compliance assessment. As a result the Council is not PCI DSS compliant and we can only give a limited assurance opinion at this time.

We are aware that additional pressures have been experienced in that the Council relocated its premises, which diverted a lot of IT resources, notably those of the Assistant IT Manager who led on PCI DSS compliance. Shortly thereafter the Assistant IT Manager then left the Council.

Executive Summary - Continued

This position has not been filled, although PCI DSS compliance has now been picked up by a member of staff within the IT section.

The Council may have access, through its acquiring bank (the term acquiring bank denotes the independent financial institutions which authorise and process credit card payments on behalf of merchants), to an online portal that could help with the PCI DSS compliance process. We have raised this matter with both the IT and Finance teams and have made a recommendation to determine whether this online portal is available to the Council as this would likely greatly simplify compliance work.

Our recommendations from the previous audit review, undertaken in May 2016, are largely restated with requirements to:-

- Confirming the availability of an online portal with the acquiring bank to assist PCI DSS compliance. If this is not available, then annual formal project arrangements are put in place to ensure a staged approach to compliance is undertaken.
- Annually identify and document all of the system components within the Council that interact with cardholder data. Determining this scope is foundational to complying with PCI DSS. Without a clear understanding of scope, the Council cannot validate its boundaries and would not know where to apply the requirements.
- Complete the relevant self-assessment questionnaire (SAQ). The SAQ is designed as a self-validation tool to assess security for cardholder data. The Self-Assessment Questionnaire includes a series of yes-or-no questions. If an answer is "no", the Council may be required to state the future remediation date and associated actions to resolve to a "yes".

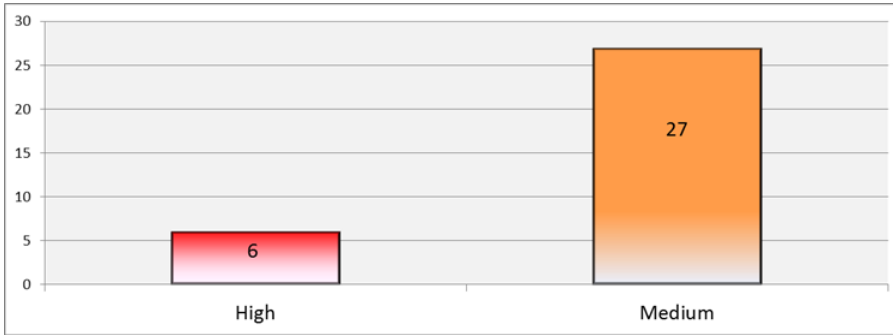
The Council is however aware of the need under PCI DSS to undertake quarterly scans of its network, and we have confirmed that a scan has been undertaken in the past quarter.

Management Response

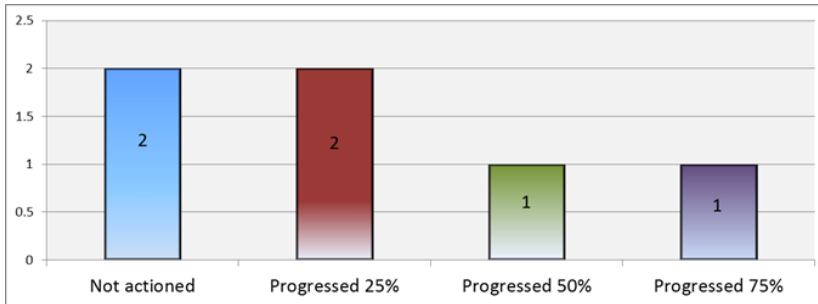
ICT accept the recommendations included within the report and will give appropriate focus and commitment to addressing the issues to complete the compliance.

Outstanding Audit Actions for all audits at 30 September 2018

All Actions remaining to be implemented



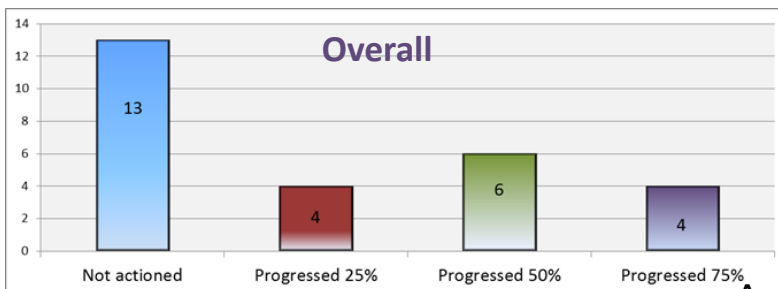
High Priority Actions remaining to be implemented



Overdue Recommendation

Audit	Finding Recommendation	Action Description	Action Current Due Date	Action Owner
Health and Safety	4.1 The training arrangements are reviewed ensuring all staff are given an opportunity to attend Health and Safety and general risk management training 4.2 Refresher training is regularly provided ensuring all staff are kept up-to-date with Health and Safety requirements and reminded of their responsibility. 4.3 Management ensure Health and Safety training modules are developed for staff and consider whether completion of any course needs enforcing i.e. making them mandatory	As part of any H&S training offer devised we will consider whether courses need to be made mandatory.	30/09/18	Ben Adams

Medium Priority Actions remaining to be implemented



Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Mansfield Crematorium	Completion of the audit of the Mansfield Crematorium Accounts	Apr-18	Apr-18	May-18	Completed
HRA Self Financing Business Plan	There is a business plan in place which is up-to-date, based on sound assumptions and reported.	May-18	May-18		Fieldwork
S106 Funding	There are effective processes in place for the receipt and spending of S106 monies.	May-18	May-18	Aug-18	Substantial
Emergency Planning	Arrangements are in place which enable the Council to effectively manage an emergency planning situation.	Jun-18			Awaiting completion of other audit before starting.
Economic Development	The Council has an economic development strategy in place which sets out it's objectives and actions. The projects/schemes/processes used to achieve the objectives are robust and authorised.	Jun-18	Jun-18		Draft Report with client
Cyber Security	The Council has arrangements in place to safeguard it from a cyber security attack. If it does suffer an attack there are effective processes to contain it and reduce it's affect on the Council's business.	Jun-18	Jun-18		Draft Report
Newark Cattlemarket	Completion of the rent calculation for 2017/18	Jun-18	Jul-18		Drafted
Creditors	There are effective processes and procedures in place which ensure that payments are made to the correct suppliers in a timely manner and in accordance with the Council's Financial Procedure Rules.	Jul-18	Aug-18		Draft Report
Development Company	There is an action plan in place for the establishment of the Company and governance arrangements which follow best practice. The establishment of the Company is authorised.	Jul-18	Jul-18		Fieldwork
Assurance	The responsibilities of the assurance function are clearly defined and embedded enabling the provision of accurate and up-to-date reporting of compliance and monitoring of corrective measures.	Aug-18	Aug-18		Draft report with CMT
Brexit Preparation and understanding the risks and opportunities	The Council is aware of the potential implications of Brexit and keeps abreast of these as the process progresses. These implications are identified within any strategic planning for the Council and it's wholly owned companies.	Aug-18	Sep-18		Fieldwork
Gilstrap	Independent Examination of the Gilstrap accounts in accordance with S145 of the Charities Act 2011.	Aug-18	Sep-18		Completed all but one query
NSDC Companies	Review of the Governance and processes in place for the Council's wholly owned companies.	Sep-18	Sep-18		TOR
Review of IR35	There are processes in place which ensure that the Council identifies all those affected by IR35 and payments are made in the correct manner.	Sep-18	Aug-18	Oct-18	Substantial
Environmental Protection	Licenses are issued where statutorily required with income being collected and accounted for. Inspections are carried out and documented in accordance with legislation.	Sep-18	Oct-18		TOR
IT Infrastructure	Review of various aspects of the Council's IT infrastructure which may include security of IT assets; network security; physical security; firewall security; remote access portals / virtual private networks; operating system reviews; web security; internet and email security; anti-virus and malware; penetration testing; public services network; and incident management.	Oct-18			

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Payroll	The processes and procedures in place ensure that only authorised payments are made to staff and members in a timely manner.	Oct-18			
Commercialisation	There is a clear strategy and action plan in place covering the Council's commercial aspirations and this conforms with the relevant legislation.	Oct-18			
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.	Nov-18			
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.	Nov-18			Meetings arranged
Street Cleansing	An efficient and effective service is in place which ensures that streets are maintained at the level of cleanliness expected.	Dec-18			
Counter Fraud	Strategies and policies are in place for the prevention and detection of fraud.	Dec-18			
Domestic Refuse	The service provided is efficient and effective with any income due to the Council being collected and accounted for. Action is taken to resolve customer complaints which are monitored and used to improve performance.	Jan-19			
Strategic Asset Management	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-19			
Project/Programme Management	There are effective arrangements in place which ensure that all projects are recorded, allocated responsible officers/teams and overseen allowing an overarching view of capacity and identifying any benefits or efficiencies.	Jan-19			
Workforce changes and succession planning within the Council including changes within the management team	The Council has a workforce plan in place which meets the changing needs of the Council and the demographic and skills of staff. There is also a plan in place for succession planning of key staff identifying positions which hold the greatest risk if vacant i.e. specialist knowledge, statutory responsibility, lone workers etc.	Jan-19			
Business Continuity	Follow-up review to assess the progress being made on the implementation of the recommendations made and ownership has been assigned.	Feb-19			
IT Governance	The Governance arrangements of the IT service ensure that there are processes in place and roles and responsibilities are clearly identified.	Feb-19			
Running of elections and Referendums	There are arrangements and policies in place which ensure that the Council effectively manages the election and referendum processes and payments in accordance with the electoral commission guidelines.	N/A	N/A	N/A	Cancelled
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.	Mar-19			1 completed

AUDIT & ACCOUNTS COMMITTEE
29 NOVEMBER 2018

COUNTER-FRAUD ACTIVITIES FROM 1 APRIL 2018 TO 30 SEPTEMBER 2018

1.0 Purpose of Report

1.1 To inform Members of counter-fraud activity undertaken since the last update reported on 25 April 2018.

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, 105 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 An annual strategic risk review was completed with CMT during July 2018. This considered all risks that the Council face inclusive of the fraud risks identified during the workshop held with Assurance Lincolnshire during February 2018. It was felt that the fraud risks needed to be held with more prominence within the performance management system to ensure that they are reviewed in timely intervals and due to this have now been categorised as operational risks. This will ensure that fraud risks are not treated differently to other risks, as they have been in the past, and to ensure that regular reviews throughout the year occur, rather than just an annual review in conjunction with Assurance Lincolnshire.

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 2017/18 1,229 Council Tax the single person discount awards were investigated. Of the matches generated by NFI, 60 cases of suspected fraud were identified amounting to £17,226.
- 5.3 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.
- 5.4 Through the other data sets mentioned in paragraph 5.4, 2,180 matches have been processed, of which 3 cases of suspected fraud have been identified with a total value of £288.
- 5.5 The 2018/19 exercise will commence in January 2019 following the release of the single person discount matching data. This exercise will comprise of Accounts Payable, Payroll, Personal Alcohol licences, Taxi drivers licences, Right to buy, Housing tenants, Housing waiting list, Housing benefits, Council Tax reduction scheme, Single person discounts and the Electoral roll. Officers are currently underway submitting data to NFI for them to go through the matching process.

6.0 Future Counter Fraud Work

- 7.1 Work is ongoing to identify proactive counter-fraud work that can be undertaken. 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

AUDIT & ACCOUNTS COMMITTEE
28 NOVEMBER 2018

WORK PLAN

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
6 February 2019	Draft Treasury Strategy 2019/20	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 2019/20	Andrew Snape	Outlines the principles and framework that shape the Council's capital proposals
	Internal Audit Progress Report 2018/19	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 2017/18	John Cornett (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 2019/20	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	
24 April 2019	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 2018/19	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 2018/19 Accounts	TBC (Mazars)	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	
19 June 2019	Biannual Review of the Effectiveness of the Internal Audit Function	Nick Wilson	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
TBC June 2019	Training session on Statement of Accounts	Andrew Snape	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 2019	Treasury Management Outturn Report 2018/19	Andrew Snape	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	External Audit Annual Governance Report 2018/19	TBC (Mazars)	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 2018/19 & Annual Governance Statement	Nick Wilson	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 2018/19	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 2018/19	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	Nick Wilson	Gain assurance that the Internal Audit function is operating effectively and that an action plan is in place to address any required improvements
	Audit Committee Work Programme	Nick Wilson	