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**Tuesday, 16 July 2019**

**Chairman: Councillor Mrs S Michael**

**Members of the Committee:**

**Councillor Mrs B Brooks  
Councillor M Brown  
Councillor R Crowe  
Councillor D Cumberlidge  
Councillor Mrs M Dobson**

**MEETING:      Audit & Accounts Committee**

**DATE:            Wednesday, 24 July 2019 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](mailto: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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1. Apologies for Absence	
2. Declarations of Interest by Members and Officers and as to the Party Whip	
3. Declaration of any Intentions to Record the Meeting	
4. Minutes of the Meeting held on 24 April 2019	4 - 7
5. Treasury Management Outturn Report- 2018/19	8 - 14
6. External Audit Annual Governance Report 2018/19	To Follow
7. Statement of Accounts 2018/19 and Annual Governance Report	To Follow
8. Internal Audit Progress Report 2019/20	15 - 27
9. Annual Internal Audit Report 2018/19	28 - 51
10. Internal Audit Recommendations	52 - 56
11. Audit Committee Work Programme	57 - 60
12. Exclusion of the Press and Public	

To consider resolving that, under section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in part 1 of Schedule 12A of the Act.

None.

13. Date of Next Meeting

Wednesday 11 November 2019

## NEWARK AND SHERWOOD DISTRICT COUNCIL

Minutes of the Meeting of **Audit & Accounts Committee** held in the F1,2 &3 Castle House, Great North Road, Newark, Notts, NG24 1BY on Wednesday, 24 April 2019 at 10.00 am.

PRESENT: Councillor Mrs S Michael (Chairman)

Councillor B Crowe, Councillor P Handley and Councillor B Wells

APOLOGIES FOR Councillor D Payne (Committee Member)

ABSENCE:

80 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.

81 DECLARATION OF ANY INTENTIONS TO RECORD THE MEETING

There were no declarations of intention to record the meeting.

82 MINUTES OF THE PREVIOUS MEETING

that the Minutes of the meeting held on 6 February 2019 be approved as a correct record and signed by the Chairman.

83 RISK MANAGEMENT REPORT

The Business Manager- HR and OD presented the Risk Management report providing an update on the Council's Risk Management arrangements and status of the Council's Strategic Risks. The Officer Risk Management Group continued to meet on a quarterly basis. Members of this group were provided with an overview of the current situation/performance of strategic and operational risks and emerging or ongoing risks were also discussed. Members noted that the Risk Management Policy was currently under review. It was envisaged that this policy will be submitted to SLT for approval in April 2019. An audit of the Council's Risk Management arrangements, undertaken last year by Assurance Lincolnshire, had identified a substantial level of confidence in service delivery, management of risks and operation of controls and performance.

The Council had identified 12 strategic risks which were outlined in the report to Members. The rating of three risks had been increased during the previous 12 months, which were: STRAT\_SR006 Sustainable communities; STRAT\_SR009 Data management and security; and STRAT\_SR011 Arkwood Development Limited.

AGREED that the report be noted.

84 STATEMENT OF ACCOUNTING POLICIES

The Assistant Business Manager- Financial Services presented the Statement of Accounting Policies for consideration by Members, prior to their use in the completion of the Statement of Accounts for 2018/2019. These policies would 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 2019.

The 2018/2019 Code introduces presentational amendments under IAS 1 Presentation of Financial Statements with regard to IAS 7 Statement of Cash Flows and the reporting of Debtors and Creditors. The changes did not impact on any policies. The Policy for Financial instruments – Financial Assets had been amended in line with the Code of Practice to reflect the new requirements under IFRS 9 Financial Instruments.

AGREED that Members approve the amended Statement of Accounting Policies for 2018/2019.

#### 85 IAS19 PENSION ASSUMPTIONS

The Committee considered 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 2018/19 Statement of Accounts.

To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries used certain assumptions to reflect expected future events which may affect the cost. The Council used 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.

A formal actuarial valuation was carried out every three years, the last being as at 31 March 2016. However this valuation was for the financial years going forward from 2018/2019, the figures produced for 31 March 2016 were 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.

AGREED Members note and approve the assumptions used in the calculation of pension figures for 2018/2019.

#### 86 PROPERTY, PLANT AND EQUIPMENT VALUATION ASSUMPTIONS

The Committee considered information regarding the assumptions made by the Valuers in calculating the figures to be reported in the 2018/19 Statement of Accounts, as per the revaluation model approach taken by the Council under IAS 16 (International Accounting Standard 16 – Property, Plant and Equipment). Assets included in the Balance Sheet at current value were revalued where there have been material changes in the value, but as a minimum once every five years.

The list of assets which had been revalued during 2018/19 were: 43 Garage sites at various locations; Newark Beacon; Buttermarket; Rainworth Village Hall; Hawtonville Community Centre; Fernwood Community Centre; Bridge Community Centre; Newark

Livestock Market; and all Council Dwellings.

The Council's dwelling assets were revalued every year due to the volatility and the group value of the assets nature. Each financial year a desktop review would be undertaken to account for the changes in the valuations, however once every five years a full revaluation would take place on a beacon basis. Financial year 2018/19 was a desktop review as the last full revaluation took place in 2017/18.

Members heard that in previous financial years the valuation certificates had been validated and approved by external consultants. However, during 2018/19 and in consultation with our external auditors (Mazars), it was established this can now be completed in-house by the Councils Asset Management team.

AGREED that Members note and approve the assumptions used in the calculation of asset valuation figures for 2018/2019.

87 INTERNAL AUDIT PROGRESS REPORT 2018/19

The Principal Auditor- Assurance Lincolnshire presented the Internal Audit progress report covering the period to 31 March 2019. 10 audit reports had been completed during the period, which were: Economic Development; HRA Self-financing; Environmental Protection; CCTV; Brexit Preparation; Domestic Refuse; Street Cleansing; Key Control Testing; and Payroll, and had all been issued with substantial assurance. One audit had been issues with limited assurance, which was ICT Cyber Security.

Members heard that the Business Manager- ICT had attended a Senior Leadership Team meeting to discuss an action plan as a result of the audit. The Committee agreed that the Manager should be invited to attend the next meeting of the Committee to provide an update against the action plan. The Director- Resources explained that he was satisfied that progress was on-going to address issues within ICT.

The Director- Resources agreed to remind Business Manager of the importance of responding to audit requests to ensure that audits were undertaken in a timely fashion to reduce delay against the audit plan and within the span of the audit. The Audit and Risk Manager- Assurance Lincolnshire also agreed to work with the Business Manager- Financial Services to produce an escalation procedure to avoid delay in undertaking an audit.

AGREED that the report be noted.

88 EXTERNAL AUDIT PLAN FOR 2018/19 ACCOUNTS

Helen Brookes- Manager, Mazars was in attendance to present the External Audit Plan for 2018/19 Accounts. The Plan outlined the audit approach, significant audit risks and areas of key judgements, value for money conclusions and the audit fee.

AGREED that the Committee noted the report.

89 COUNTER-FRAUD ACTIVITY REPORT

The Business Manager- Financial Services presented a report detailing counter fraud activity undertaken since 28 November 2018. Members heard that 170 potentially fraudulent claims for housing benefit had been referred to the Fraud and Error service since 1 December 2015. A review of the fraud risk register had been undertaken under separate cover on the agenda, and an internal audit on counter fraud was in progress. Members also noted that the 2018/19 National Fraud Initiative exercise commenced in February 2019.

AGREED that the report be noted.

90 FRAUD RISK ASSESSMENT

The Business Manager- Financial Services detailed a review of the fraud risk register which had been undertaken, facilitated by Assurance Lincolnshire. 18 areas of the Council's activities remained at risk of fraud, four with sub categories. Seven were considered to be medium risk, and 15 low risk. None of the risk scores changes from the assessment undertaken in February 2018. Further actions implemented to mitigate the fraud risks were detailed in the report.

Members welcomed the review of the risk register and work to mitigate fraud and promote a strong counter fraud culture.

AGREED that the report be noted.

91 AUDIT COMMITTEE WORK PROGRAMME

The Committee noted the Work Programme.

92 DATE OF NEXT MEETING

The date of the next meeting would be Wednesday 24 July 2019.

As this was the last meeting of the committee in the municipal year, the Chairman thanked officers, internal and external audit, and her fellow Councillors for their work during her term.

Meeting closed at 10:55am

Chairman

## **AUDIT & ACCOUNTS COMMITTEE**

**24 JULY 2019**

### **TREASURY MANAGEMENT OUTTURN REPORT 2018/19**

#### **1. Purpose of Report**

- 1.1. The purpose of this report is to give Members the opportunity to review the annual Treasury Outturn report which will be presented to Council on 15th October 2019 (copy attached at **Appendix A**).

#### **2. Introduction**

- 2.1. In January 2010 the Council formally adopted the CIPFA Code of Practice on Treasury Management which requires that the Council receives regular reports on its treasury management activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 2.2. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit and Accounts Committee and for the execution and administration of treasury management decisions to the section 151 officer, who will act in accordance with the Council's policies and practices.
- 2.3. The Treasury Strategy and Prudential Indicators for 2018/19 were approved by Council on 8<sup>th</sup> March 2018 and the Outturn report is the last report for the financial year, required by the Code. It has been prepared on the basis of the draft final accounts which appear elsewhere on the agenda. If there are significant changes resulting from the audit of the accounts they will be reported at the next meeting of this Committee.
- 2.4. The report in section 6 details that there were no breaches of the approved prudential indicators during 2018/19.

#### **3. RECOMMENDATION**

**That the Treasury Outturn position for 2018/19 be considered.**

#### **Background Papers**

Nil

For further information please contact Andrew Snape on extn. 5532

Nick Wilson  
Business Manager Financial Services

**ANNUAL TREASURY REPORT 2018/19****1. Background**

- 1.1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ('the Code') which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. Scrutiny of treasury policy, strategy and activity is delegated to the Audit and Accounts Committee.
- 1.2. Treasury management is defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
- 1.3. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.

**2. Economic Background**

- 2.1. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.
- 2.2. After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.
- 2.3. With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.
- 2.4. While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies



and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

- 2.6 **Financial markets:** December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.
- 2.7 Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.
- 2.8 Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.
- 2.9 **Credit background:** Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.
- 2.10 The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.
- 2.11 In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

2.12 There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

### 3. Local Context

3.1. At 31/03/2019 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £129m, while usable reserves and working capital which are the underlying resources available for investment were £53.4m.

3.2. At 31/03/2019, the Council had £95m of borrowing and £41m of investments. The Council's current strategy is to maintain borrowing below the underlying level indicated by the CFR, and to use internal resources to cover the gap. This is referred to as internal borrowing.

3.3. The Council has an increasing CFR over the next 2 years of £8.57m, due to the borrowing requirement of £15.6m (GF £5.4m / HRA £10.2m) for financing the capital programme over the forecast period, if reserve levels permit internal borrowing will be considered. The CFR requirement reduces when minimum revenue provisions are made and the repayment of debt, over the forecast period there are four loans due for repayment with a combined total value of £6.0m.

### 4. Borrowing Strategy

4.1. Borrowing Activity in 2018/19

	<b>Balance 1/4/18 £000</b>	<b>New Borrowing £000</b>	<b>Debt Maturing £000</b>	<b>Balance 31/3/19 £000</b>
CFR	124,681			129,821
Short Term Borrowing	3,293	14,914	13,224	4,983
Long Term Borrowing	86,103	5,000	1,022	90,081
<b>Total Borrowing</b>	<b>89,396</b>	<b>19,914</b>	<b>14,246</b>	<b>95,064</b>
Other Long Term Liabilities	224	0	0	224
<b>Total External Debt</b>	<b>89,620</b>	<b>19,914</b>	<b>14,246</b>	<b>95,288</b>
Increase/(Decrease) in Borrowing £000				5,668

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

4.3. The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Council's borrowing need based on realistic projections, it was decided to take a combination of medium-term borrowing and long-term borrowing maturity loans. The Council borrowed £5m medium/longer-term fixed rate loans, details of which are below. These loans provide some longer-term certainty and stability to the debt portfolio.

<b>Long-dated Loans borrowed</b>	<b>Amount £000</b>	<b>Rate %</b>	<b>Period (Years)</b>
PWLB Maturity Loan 1	3,000	2.04	10
PWLB Maturity Loan 2	1,000	2.34	15
PWLB Maturity Loan 3	1,000	2.53	30

- 4.4. **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 year, none of which were exercised by the lender.
- 4.5. **Debt Rescheduling:** The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

## 5. Investment Activity

### 5.1. Investment Activity in 2018/19

	<b>Balance 1/4/8 £000</b>	<b>New Investments £000</b>	<b>Investments Redeemed £000</b>	<b>Balance 31/3/19 £000</b>
Short Term Investments	24,472	141,593	124,695	41,370
Long Term Investments	0	0	0	0
<b>Total Investments</b>	<b>24,472</b>	<b>141,593</b>	<b>124,695</b>	<b>41,370</b>
Increase/(Decrease) in Investments £000				16,898

- 5.2. 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. During 2018/19 the Council's investment balances have ranged between £22.6 and £51.1 million.
- 5.3. Security of capital remained the Council's main objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.
- 5.4. Counterparty credit quality is assessed and monitored by Arlingclose, the Council's treasury advisors, with reference to credit ratings; credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. Arlingclose provide recommendations for suitable counterparties and maximum investment periods.

- 5.5. Readiness for Brexit: With little by way of political clarity as to the exact date on whether there would be an agreed deal prior to leaving the EU and to be prepared for the outside chance of a particularly disruptive Brexit (such as last-minute no-deal) on 29th March, the Council ensured there were enough accounts open at UK domiciled banks and Money Market Funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.
- 5.6. Also, during the financial year 2018/19 there was the introduction of International Financial Reporting Standard (IFRS) 9 – Financial Instruments. The new standard presented revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment.

## 6. Compliance with Prudential Indicators

- 6.1. The Council can confirm that it has complied with its Prudential Indicators for 2018/19, which were set on 8 March 2018 as part of the Council’s Treasury Management Strategy Statement.
- 6.2. **Interest Rate Exposure:** These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates for both borrowing and investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Approved Limit for 2018/19 %</b>	<b>Maximum during 2018/19 £m</b>
<b><u>Fixed Rate</u></b>		
Borrowing	100%	91%
Investments	75%	44%
<i>Compliance with Limit</i>		Yes
<b><u>Variable Rate</u></b>		
Borrowing	20%	9%
Investments	100%	56%
<i>Compliance with Limit</i>		Yes

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

	<b>Upper Limit %</b>	<b>Fixed Rate Borrowing 31/03/19 £m</b>	<b>Fixed Rate Borrowing 31/3/19 %</b>	<b>Compliance?</b>
Under 12 months	15%	7.007	7.4%	Yes
12 months to 2 years	15%	4.000	4.2%	Yes
2 years to 5 years	30%	16.976	17.9%	Yes
5 years to 10 years	100%	24.060	25.3%	Yes
10 years and above	100%	43.021	45.2%	Yes

- 6.4. **Principal Sums Invested for over 364 Days.** All investments were made on a short-term basis and there were no investments for more than 364 days.
- 6.5. **Authorised Limit and Operational Boundary for External Debt.** The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The s151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2018/19; borrowing at its peak was £96.1m.

	<b>Approved Operational Boundary 2018/19 £m</b>	<b>Authorised Limit 2018/19 £m</b>	<b>Actual External Debt 31/03/19 £m</b>
Borrowing	128.3	128.3	95.1
Other Long Term Liabilities	0.4	0.6	0.2
<b>Total</b>	<b>128.7</b>	<b>128.9</b>	<b>95.3</b>

- 6.6. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary of the treasury management activity during 2018/19. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 6.7. The Council also confirms that during 2018/19 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

**AUDIT AND ACCOUNTS COMMITTEE**  
**24<sup>th</sup> JULY 2019**

**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 8 July 2019.

**2.0 Introduction**

The purpose of the internal audit progress report (Annex A) is to provide a summary of Internal Audit work undertaken during 2019/20 against the agreed audit plan and any remaining reports from 2018/19.

**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 – June 2019

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## Internal Audit work completed

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## Appendices

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Assurance Definitions  
2019/20 Audit Plan to Date

**Lucy Pledge** - Audit and Risk Manager (Head of Internal Audit)  
[lucy.pledge@lincolnshire.gov.uk](mailto:lucy.pledge@lincolnshire.gov.uk)

**Rachel Abbott** – Audit Team Leader  
[rachel.abbott@lincolnshire.gov.uk](mailto:rachel.abbott@lincolnshire.gov.uk)

**Amanda Hunt** - Principal  
[amanda.hunt@newark-sherwooddc.gov.uk](mailto:amanda.hunt@newark-sherwooddc.gov.uk)

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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 2019 to 8 July 2019  
Advise on progress with the 2019/20 plan and reports issued for 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 4 assurance audits\*:-

- Counter Fraud – 2018/19
- Development Company – 2018/19
- Emergency Planning – 2018/19
- Pay and Grading – 2019/20

We have also completed the review of the Mansfield Crematorium accounts and the Newark Livestock Market Rent calculation.

All remaining audits within the 2018/19 plan are at draft report stage.

The 2019/20 plan is underway with three jobs being completed and another at draft report stage. We have delayed two audits so far due to auditee capacity, one due to the completion of other audits and another due to a member of staff leaving the Council.

There are no recommendations to follow-up for 2019/20 and those from previous years are included within our Annual report.

**1**  
High Assurance

**3**  
Substantial Assurance

**0**  
Limited Assurance

**0**  
Low Assurance

**2**  
Other / Consultancy

\*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.

## Substantial Assurance

### Counter Fraud

We are confident that the council understands its responsibility and that strategy and policies in place will protect public money. The council do not have dedicated resource in counter fraud which limits proactive activity. Fraud is generally hidden and controls alone will not eliminate all risk, therefore there will always be a degree of risk that some fraud is not picked up. Proactive actions to further raise the profile of Counter fraud and awareness within the council would help to further enhance this assurance level.

The Council acknowledges its responsibility for fraud and risk and has in place a structure to manage this effectively whilst accepting a level of risk. The core strategy highlights relevant policies and procedures that are in place, and available to be viewed for transparency and compliance. They understand their fraud risks and have in place updated frauds risks within their operational risk register which were completed with assistance from the Counter Fraud Team within Assurance Lincolnshire. This created lists of key actions / considerations and implementation of these will further strengthen the councils counter fraud position and minimise further fraud risks.

Counter fraud activities are reported to the Audit and Accounts committee on a bi annual basis to increase their visibility and accountability.

### Development Company

The processes in place for setting up the company so far have been good. Appropriate authorisation has been obtained and the legal and governance documents have all been produced. There is a Shareholder Committee and Board of Directors in place and a client, company split demonstrating a level of independence.

The Company is not yet trading and there is still documentation such as the Business Plan to be produced.

There were a number of areas where the processes requiring strengthening:-

- Requirement for the risk management arrangements of the Company to be provided to the Council. The risk registers for the Company and Council also require some further work.
- Clarity over the taxation advice arrangements
- Including a statement on how audit and scrutiny is to be achieved and by whom.

# Assurances

## Emergency Planning

Our overall assurance rating for Emergency Planning, as it currently stands whilst evolving, is substantial borderline limited.

This rating means that we have assessed it to be substantial overall but it would only take a decline in development and progress to become limited. Whilst there are sufficient controls in place to manage an Emergency Planning incident, we feel that there are still some significant improvements to be made. We have received verbal assurance from the Business Manager Public Protection and the Emergency Planning Officer that this will happen over the next 12 months. Specific issues include:-

### Planning

- The emergency control room plan requires a few additions before it can be categorised as complete including, break times and telephone guides.
- The flood plan needs an update however, we are confident that it can still be used effectively if a flood occurred tomorrow.
- There are some concerns that the Council would not be prepared for a lockdown at Castle House if it was necessary.

### Testing

- There is no formal method of keeping track of recommendations and lessons learnt from testing.
- Those responsible for actions following an emergency are not held to account or asked for progress updates. As a result of this, recommendations from previous incidents are yet to be actioned.

### Roles and responsibilities

- The level of training is adequate however, training needs to be set up for future managers.
- The Business Manager Public Protection and the Emergency Planning Officer capacity is stretched between Emergency Planning and Business Continuity making it difficult to progress quickly in one area.

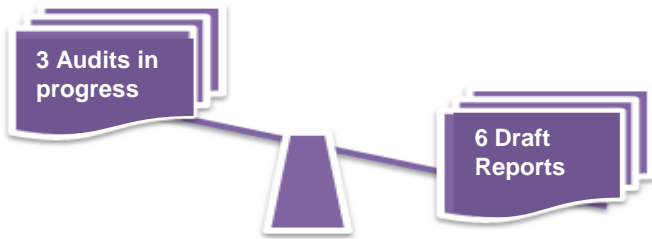
### Governance

- The Business Manager Public Protection and the Emergency Planning officer do not present their progress or areas of development to SLT, meaning that they are not being regularly held to account.

# High Assurance

## Pay and Grading

The arrangement has been well implemented and the staff posts have been correctly assimilated to the new pay and grading structure. The implementation option selected ensured that the additional cost required for the arrangement were financially affordable to the Council whilst ensuring that the changes made were beneficial to the employees of the Council.



## Audits reports at draft

We have 6 audit's at draft report stage:

- IT Governance
- Business Continuity
- Strategic Asset Management
- Follow-ups
- Customer Comments
- Project/Programme Management

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

## Work in Progress

We also have 3 audits in progress :

- Financial strategy and modelling
- Community Centres
- Commercialisation

Details of these can be seen in the 2019/20 plan at appendix 2.

## Other Work Completed

We have completed the review of the Mansfield Crematorium accounts and the Newark Livestock Market rent calculation.

## Changes to the Plan

We have not made any changes to the plan this quarter although there are discussions underway which may require changes in the next quarter.



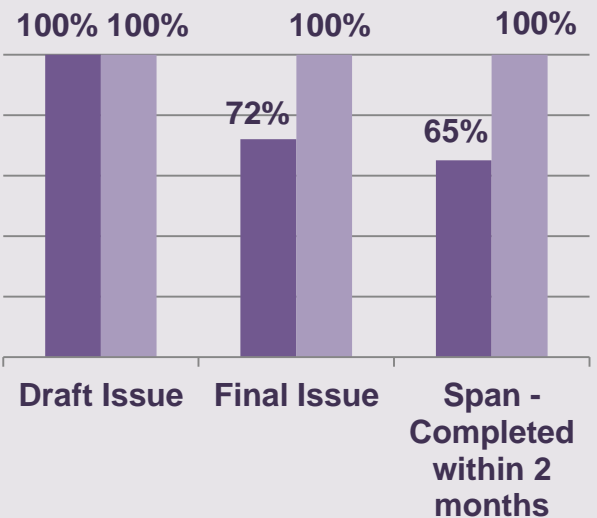


Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

## Performance on Key Indicators

Limited availability due to being the first quarter of the year.

0%



■ 2018/19 ■ 2019/20  
Agenda Page 22



# Other Matters of Interest

A summary of matters that will be of particular interest to Audit and Accounts Committee Members

## **CIPFA has issued fresh guidance on internal audit to help professionals cope with “growing levels of financial risk”.**

The institute is calling on the public sector to provide recognition, support and encouragement for Heads of Internal Audit and their teams via five ‘key principles’, which align with the UK Public Sector Internal Audit Standards:

- HIAs should champion best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.
- HIAs should give an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.
- Must lead and direct an internal audit service that is resourced to be fit for purpose.
- Must be professionally qualified and suitably experienced.

## **Assurance Lincolnshire wins another award**

Assurance Lincolnshire won the "Good Governance and Risk Management" award at the Public Finance Awards 2019.

This was for the work on culture, value and ethics that we have worked on over the last year at Lincolnshire County Council. We beat teams from the Police, Northern Ireland Water, The NHS, Transport for London, and the Treasury.

Judges comments: "There was a lot of evidence of proactive planning and putting in place resilient processes to monitor and mitigate risk. We were impressed by the focus on ethics, acting in the public interest and sharing the work with other groups"

**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.



Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Commercialisation	There is a clear strategy and action plan in place covering the Council's commercial aspirations and this conforms with the relevant legislation.	Apr-19	Jul-19		Delayed awaiting completion of another audit in this area.
Mansfield Crematorium	Completion of the audit of the Mansfield Crematorium Accounts	Apr-19	Apr-19	Apr-19	Complete
Customer Comments	To review the process in place for the receipt of customer comments/complaints and provide assurance that these are dealt with in accordance with the Councils processes and used to inform future service improvements.	May-19	Apr-19		Draft report with SLT
Pay and grading	To review the process for implementing the revised pay and grading structure to provide assurance that it has been approved and implemented correctly.	May-19	Apr-19	Jun-19	High
Financial Strategy and Modelling	To review the financial strategy and provide assurance that it is accurate, compliant and assumptions are realistic, documented and tested. Appropriate approval has been obtained.	Jun-19	Jun-19		Fieldwork in progress
Community Centres	Review of the processes in place which ensure compliance with lease and occupiers liabilities providing the Council with assurance over their assets.	Jun-19	Jun-19		Fieldwork in progress
Building Control	There are effective monitoring arrangements in place which ensure that the residents of the district are getting the service expected and included within the agreement.	Jun-19			
Newark Cattlemarket	Completion of the rent calculation for 2018/19	Jun-19	Jun-19	Jun-19	Completed
Corporate Planning	To provide assurance that there is a corporate plan in place which clearly links to the priorities of the Council, activities completed by Business Units and how achievement of the priorities are measured - the golden thread.	Jul-19			
ICT Incident Management	To provide assurance that there is a consistent and effective approach to the management of incidents and cyber security events, including communication on security events and weaknesses.	Jul-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.	Aug-19			
Performance	To provide assurance that the performance process is effective and has a clear link with the Councils' corporate plan. To follow up the recommendations made within the previous report which received a Limited assurance rating.	Sep-19			
Buttermarket	To provide assurance that there is effective management of the Buttermarket to ensure that it meets the objectives of the Council.	Sep-19			
Gilstrap	Independent Examination of the Gilstrap accounts in accordance with S145 of the Charities Act 2011.	Sep-19			
Budgetary Control /Management	To provide assurance that the budgets are set in accordance with the financial strategy and Council priorities with accurate reporting and monitoring.	Oct-19			

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Procurement	To provide assurance over the new arrangements in place for procurement.	Oct-19			
ICT Patch Management and Change Control	To provide assurance that established organisational processes for patch management and change control are followed and that the systems upon which the Council relies are routinely and regularly checked for vulnerabilities with remedial actions being promptly taken where vulnerabilities are identified.	Oct-19			
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.	Oct-19			
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-19			
Capital Programme	To provide assurance that the capital programme is appropriately approved, financed and reported.	Jan-20			
Newark Cattlemarket	The provide assurance that the arrangements in place for the management of the cattlemarket ensure that the income is collected in accordance with the lease and the terms of the lease are adhered to. The council ensures that the current use and lease supports it's priorities on regeneration for the town.	Jan-20			
Housing Options	To provide assurance that the homelessness service is meeting it's objectives and priorities and complies with legislation. The project for the provision of temporary accommodation is well managed and complies with Council processes.	Jan-20			
General Ledger/Financial reporting	To review the general ledger to provide assurance that transactions within it are accurate and agree with the feeder systems. Access to the ledger is appropriately restricted.	Feb-20			
Strategic Risks	Strategic risks are identified, managed and linked to the corporate priorities of the Council. There is a process in place which ensures that they remain current and action plans ensure that risk mitigation actions are implemented as planned.	Feb-20			
Land Charges	To provide assurance that applications are processed on time and in accordance with legislation.	Feb-20			
Public Protection	To provide assurance that the Council is complying with it's duties in respect of Public Protection including a clear strategy and partnership working. Income due through the issue of Fixed Penalty notices is collected and used as prescribed.	Mar-20			
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.	Mar-20			

## AUDIT & ACCOUNTS COMMITTEE

24 JULY 2019

### ANNUAL INTERNAL AUDIT REPORT

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

#### **1.0 Purpose of Report**

1.1 To receive and comment upon the Annual Internal Audit Report 2018/19.

#### **2.0 Introduction**

2.1 The purpose of the annual internal audit report (**Annex A**) is to provide a summary of Internal Audit work undertaken during 2018/2019 to support the Annual Governance Statement by providing an opinion on the organisation's governance, risk management and internal control environment.

2.2 The Annual Internal Audit Report:-

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

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

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

#### **3.0 RECOMMENDATION**

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

#### Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nick Wilson  
Business Manager Financial Services

# Internal Audit Annual Report 2018/19



## **What we do best...**

**Innovative assurance services**  
**Specialists in internal audit**  
**Comprehensive risk management**  
**Experts in countering fraud**

## **...and what sets us apart**

**Unrivalled best value to our customers**  
**Existing strong regional public sector  
partnership**  
**Auditors with the knowledge and expertise to  
get the job done**  
**Already working extensively with the not for  
profit and third sector**

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Details of Limited / Low Assurances  
Details of Audit Plan Changes  
Details of Overdue Actions  
Benchmarking Data  
Assurance Definitions  
Glossary of Terms

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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.



# Purpose of Annual Report

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular:-

- Include an opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it;
- Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion;
- A statement on conformance with the PSIAS and the results of the internal audit quality assurance);
- Draw attention to any issues particularly relevant to the Annual Governance Statement

## Annual Opinion

For the twelve months ended 31 March 2019 (based on the work we have undertaken and information from other sources of assurance) my opinion on the adequacy and effectiveness of Newark and Sherwood District Council's arrangements for governance, risk management and control is:-

<p><b>Governance</b></p> 	<p><b>Performing Adequately</b> – Some improvements/assurance required over the Council’s Governance, Risk and Control framework and to manage high and medium risks across the Council.</p>
<p><b>Risk</b></p> 	<p><b>Performing Well</b> – No concerns that significantly affect the risk management framework and successful delivery of the Council priorities.</p>
<p><b>Internal Control</b></p> 	<p><b>Performing Adequately</b> – Some improvement required to manage high and medium risks in key business areas and other medium risks across the Council.</p>
<p><b>Financial Control</b></p> 	<p><b>Performing Well</b> – No concerns that significantly affect the Financial governance, risk and control framework and successful delivery of the Council priorities.</p>

## Governance



*"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"*

It is comprised of systems, processes, culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant governance issues that it feels should be drawn to the attention of the public – in the interests of accountability and transparency.

Significant governance issues identified by the Council in the 2019 statement are:

- Organisational change\*
- Development Company\*
- Estate regeneration programme\*
- Emergency Planning
- Business Continuity\*
- Re-integration of Housing Management Function
- Counter Fraud\*
- Compliance with Financial\* Regulations re. authorisation of goods, works and services.

Action plans are in place for these with responsible officers identified. There were, however, a number of these which were identified in the 2017/18 statement (\*). Some of these are long term issues and progress has been made as planned.

However Business Continuity is making slower than expected progress receiving another Limited report this year. It has also been identified that the position on compliance with the Financial Regulations item has deteriorated rather than improved.

## The Governance framework has decreased



## Assessed as Performing Adequately

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## Governance



There were some significant changes to the management team and leadership within the Council during the year which have not yet been reviewed by ourselves. These have a significant impact on the Governance arrangements within the Council.

Further significant issues have been added around the emergency plan and the integration of the Housing management function which contribute towards our assessment.

The Audit and Accounts Committee helps to ensure that these arrangements are working effectively. They review and consider the draft and final versions of the Annual Governance Statement.

There have been some significant changes within the management structure this year with a change in Chief Executive, Monitoring Officer and other changes to Directorate responsibilities. There has also been a change in leader of the Council and it's Objectives have been refreshed . All of which have an impact on the governance arrangements.

We have not undertaken a review of Governance since the health check in 2016/17 . We will be undertaking a Governance Review of culture and values in 2019/20 – which will show whether the Council's core values are embedded and at the heart of what the Council does – being open, transparent and inclusive.

Whilst the assurance level has decreased due to the points raised above, this is still a good level of assurance.

## Risk



Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This put us in a stronger position to deliver our goals and provide excellent services.

During the year the Council's risk management arrangements were assessed as Green through the combined assurance review.

Previous audit work in 2017/18 provided substantial assurance and a level 3 of maturity.

There is an established framework in place for the Council to manage the key risks facing services and successful delivery priorities with regular reporting to management and members.

The Audit and Accounts Committee continues to receive regular updates on how the Council manages its risks.

A decision was taken this year to streamline the risks into Operational and Strategic. Fraud risks were incorporated into the operational risks.

A separate review of the Fraud risks was undertaken facilitated by the Assurance Lincolnshire Counter Fraud Team.

# Risk Management assurance remained the same



# Assessed as Performing Well



We take account of the outcome of our audit work during the 2018/19 year. As our audit plans include different activities each year it is not unexpected that assurance varies. However the assurance levels still give insight into the Council's control environment.

A follow-up review of Business Continuity has again provided a limited level of assurance. Other limited assurance opinions are:

- Procurement Card
- Cyber Security

Emergency Planning was given a Substantial/Limited assurance opinion. A summary of these audits can be found in appendix 2.

Positive assurance levels have improved upon the previous year for the Council's systems.

During the year we have made 106 recommendations for improvement 16 of these were not confirmed as complete at the due date – see appendix 4 for full details.

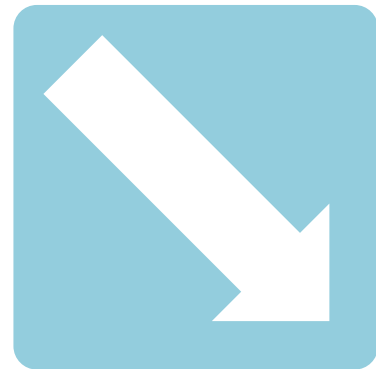
Our opinion is based not only on the outcome of our internal audit work but also the intelligence gathered through the combined assurance work and other sources.

As shown in the following page the level of assurance has declined since last year and there are a number of key areas which

received amber assurance or have not been given a level of assurance..

Whilst the assurance level has decreased due to the points raised above, this is still a good level of assurance.

## Internal Control assurance has decreased



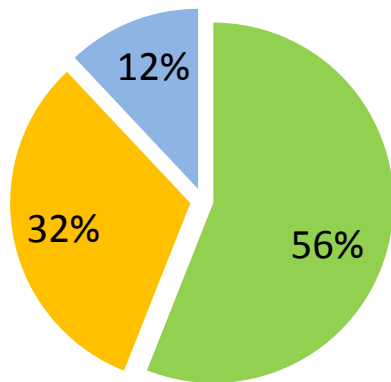
**Assessed as Performing Adequately**  
Agenda Page 35



A Combined Assurance Status report has not been produced this year but we have collated information from each Director and Business Manager on the level of confidence they can provide on service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. This information provides key assurance evidence to support the Head of Internal Audit opinion.

## Combined Assurance

### Overall Assurance Status 18/19



■ High      ■ Medium  
■ Low      ■ Unknown

**High levels of assurance have decreased by 10% since 2017/18**



There remain no areas of low assurance. The biggest change is the number of unknown where there were previously none. These relate to projects for which assurance was not provided. Amber areas are:-

#### Communities and Environment

Street Cleansing, Health and Safety, Business Continuity, Emergency Planning, Housing Options.

#### Growth and Regeneration

Land Charges, National Civil War Centre

#### Governance and Organisational Development

Corporate Policy, External mail, print and Multi Function Devices, Performance Management, Assurance

#### Resources and Deputy Chief Executive

Corporate Planning, Commercialisation, Car Parks, Corporate Counter Fraud, Income and Banking, Financial Strategy, Benefits, Estates Management, Strategic Asset Management, Newark Cattlemarket Energy/Carbon Management

#### ICT

Governance, Operations, Compliance



Our audit plans include providing assurance over our key financial systems, the level of risk influences frequency.

Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts.

During the year we reviewed:

- Key control testing – **Substantial Assurance**
- Payroll – **Substantial Assurance**
- Creditors – **Substantial Assurance**
- HRA – **Substantial Assurance**

Following the issue of the report concerning Northamptonshire County Council we conducted a high level financial resilience health check at the Council. There were no concerns raised during the review which would affect the overall opinion and there was a positive statement provided last year from External Audit:-

*'The Authority is in a strong position with a high level of reserves, but has recognised the risks around future funding beyond 2020.'*

The Council is undertaking a procurement exercise for a new financial system and it's successful implementation will be key to future assurances.

# The Financial Control assurance remains the same



# Assessed as Performing Well

## Our Work



The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing *independent risk based and objective assurance* and *insight* on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.

## Scope of Work

Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus.

The Audit Committee approved the 2018/19 original audit plan of **285 days** in February 2018. We have delivered 99% of the revised plan of **287 days** - **27** pieces of work. All remaining pieces of work are at draft report stage. More details on revisions to the plan can be found in Appendix 3

I do not consider the restrictions and changes to the plan to have had an adverse effect on my ability to deliver my overall opinion. The combined assurance model adopted by the Council helped in this regard.

We have not experienced any impairment to our independence or objectivity during the conduct and delivery of the Internal Audit Plan.

## Restriction on Scope

In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had minor difficulties in gaining access to some staff which resulted in some delay or inability to deliver planned work within the expected timescales.





We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards (PSIAS). We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.

## Quality Assurance

Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.

Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.

There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings.

Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. An External Quality Assessment was undertaken in September 2016. No areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity was identified.

Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following:

- Update Internal Audit Charter and practice manual following revision of PSIAS in April 2017 and CIPFA Application Note.
- Working with senior management improve progress and delivery monitoring / audit scheduling
- Support development of the Audit & Accounts Committee, following publication of CIPFA Audit Committee practical guidance
- Continuing professional development around new and emerging practice guidance.

Although internal and external auditors carry out their work different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where it is appropriate.

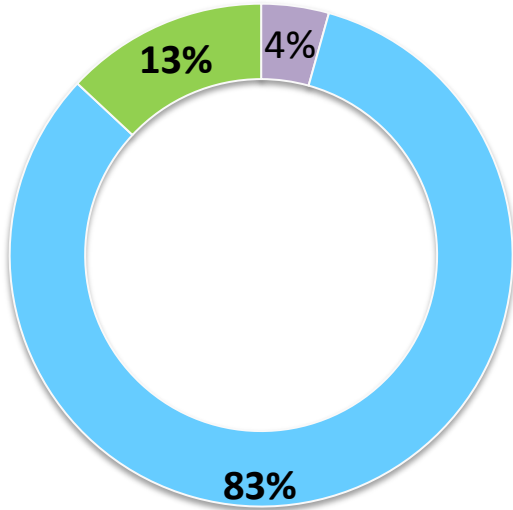
Assurance Lincolnshire were winners of CIPFA's Public Finance Awards 2019 for its work around Governance - Culture and Values.

# Benchmarking



Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment and forms part of the evidence that helped inform the overall annual opinion.

## Assurances



Increase in High and Substantial Assurance on last year



14%

Fall in Low and Limited Assurance on last year



■ High ■ Substantial ■ Limited ■ Low

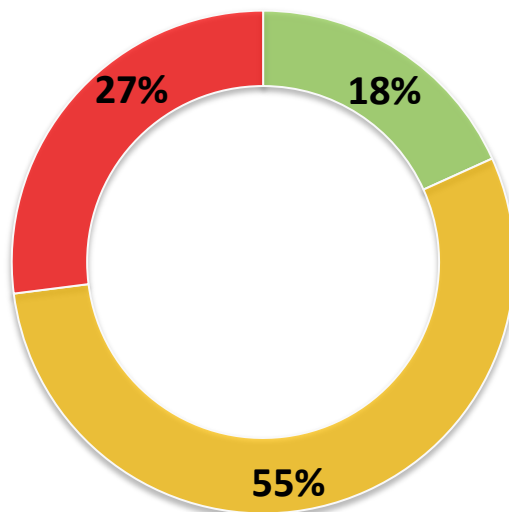
## Recommendations

17%

increase in high priority recommendations

Medium priority recommendations have reduced

21%



■ Low ■ Medium ■ High

Further details can be found on [Agenda Page 40](#) and [Page 41](#) including outstanding recommendations





Internal Audit's performance is measured against a range of indicators. The table **Figure 6** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement delivery of the revised plan and the added value of our work. An area of improvement is around contemporary reporting (timescales).

## Performance on Key Indicators

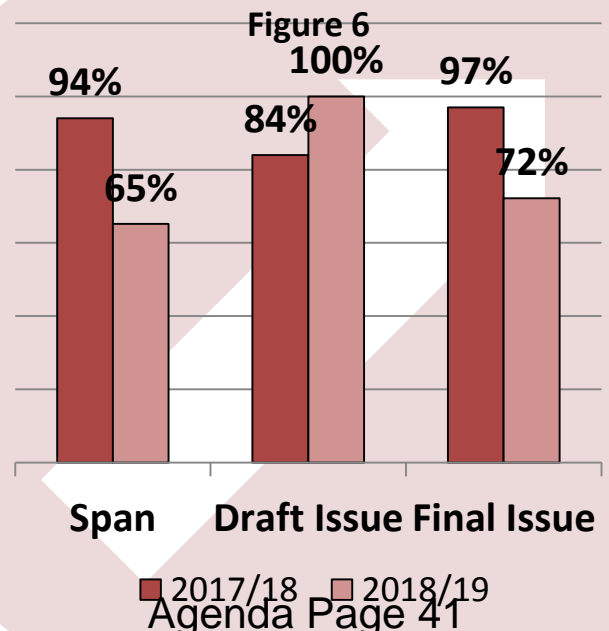
# 100%

Rated our service Good to Excellent

# Some decline in achievement of Audit KPI's

# 99%

Of revised plan delivered



Audit	Rating	Type	High	Medium	Advisory	Total
Mansfield Crematorium	Completed	Financial	N/A	N/A	N/A	N/A
HRA Self Financing Business Plan	Substantial	Risk Based Audit	1	5	0	6
S106 Funding	Substantial	Risk Based Audit	0	3	1	4
Emergency Planning	Substantial	Risk Based Audit	5	2	0	7
Economic Development	Substantial	Risk Based Audit	0	5	2	7
Cyber Security	Limited	Risk Based Audit	9	10	2	21
Newark Cattlemarket	Completed	Financial	N/A	N/A	N/A	N/A
Creditors	Substantial	Risk Based Audit	1	3	2	6
Development Company	Substantial	Risk Based Audit	0	4	3	7
Assurance	Substantial	Risk Based Audit	0	3	2	5
Brexit Preparation and understanding the risks and opportunities	Substantial	Risk Based Audit	0	1	1	2
Gilstrap	Completed	Financial	N/A	N/A	N/A	N/A
NSDC Companies	Indicative - Substantial	Risk Based Audit	0	6	1	7
Review of IR35	Substantial	Risk Based Audit	1	0	1	2
Environmental Protection	Substantial	Risk Based Audit	0	3	2	5
Sub- Total			17	45	17	79

Audit	Rating	Type	High	Medium	Advisory	Total
IT Infrastructure	Cancelled	Risk Based Audit	N/A	N/A	N/A	N/A
Payroll	Substantial	Risk Based Audit	0	3	1	4
Commercialisation	Postponed to 2019/20	Risk Based Audit	N/A	N/A	N/A	N/A
Key Control Testing	Substantial	Risk Based Audit	1	4	2	7
Combined Assurance	Completed	Consultancy	N/A	N/A	N/A	N/A
Street Cleansing	Substantial	Risk Based Audit	0	5	0	5
Counter Fraud	Substantial	Risk Based Audit	0	2	0	2
Domestic Refuse	Substantial	Risk Based Audit	4	3	1	8
Strategic Asset Management	Indicative - Substantial	Risk Based Audit	0	6	0	6
Project/Programme Management	Draft Report	Risk Based Audit	N/A	N/A	N/A	N/A
Workforce changes and succession planning within the Council including changes within the management team	Cancelled - postponed to 2019/20	Risk Based Audit	N/A	N/A	N/A	N/A
Business Continuity	Indicative – Limited	Risk Based Audit	7	0	0	7
IT Governance	Indicative – substantial	Risk Based Audit	1	1	0	2
Running of elections and Referendums	Cancelled	Risk Based Audit	N/A	N/A	N/A	N/A
Follow-ups	Indicative – Substantial	Risk Based Audit	0	2	0	2
Procurement Card	Indicative - Limited	Risk Based Audit	7	4	4	15
<b>Total</b>			<b>37</b>	<b>75</b>	<b>25</b>	<b>137</b>

During the year we have issued a number of limited assurance opinions, in summary these are:

**Cyber Security** – our review looked to provide assurance that the 10 steps for cyber security set by the National Cyber Security Centre to help organisations manage cyber risks and 2 steps added by the National Audit Office had been addressed by the Council. There were a number of improvements required both in the policies and procedures and operational aspects of ICT.

**Procurement Card\*** – this was an additional audit to the original plan which looked at the processes and use of the Councils Procurement Card. We found weaknesses within several areas of the process including monitoring of usage and card security.

**Business Continuity\*** – this review was a follow-up of the previous audit carried out in 2017/18 which received Limited assurance. We found that whilst some work had been carried out at this stage, we are unable to give a higher rating due to the fact that the Business Impact Assessments (BIA) and service plans are incomplete. Also as the service plans haven't been finished yet, there has been no testing of the current corporate Business Continuity Plan. The action plan remains in place and will continue to be monitored by SLT.

**Emergency Planning** – Our audit was aimed at providing assurance that the Council has an up to date and stable plan in place, in order to manage the implications of any emergency.

Our overall assurance rating for Emergency Planning, as it currently stands whilst evolving, is substantial borderline limited.

This rating means that we have assessed it to be substantial overall but it would only take a decline in development and progress to become limited. Whilst there are sufficient controls in place to manage an Emergency Planning incident, we feel that there are still some significant improvements to be made.

Recommendations have been made to improve the assurance levels within these audits which are continuously monitored and reported. These are summarised within Appendix 5.

The original approved plan was 285 days – the revised plan was 287 days.

A number of audits were removed from the original audit plan – these were due to a combination of:

- changes being requested by management - so the timing of the audit adds more value
- management could not accommodate the audit in their work plan before the end of the year
- re-prioritising audit resources to those of highest risk

Outlined below are the areas that have been removed from the original plan:

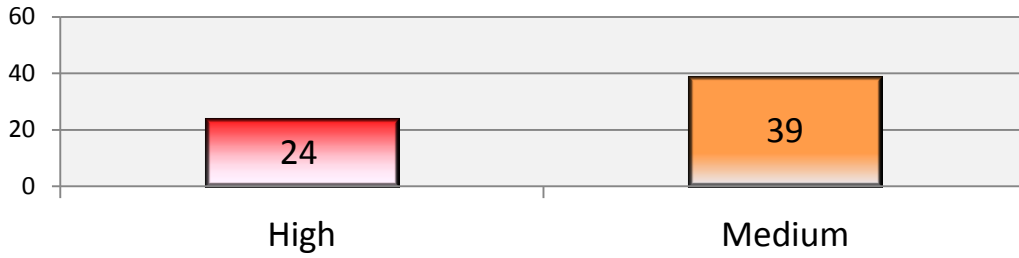
- Running of Elections and Referendums
- Commercialisation
- Workforce changes and succession planning within the Council including changes within the management team
- ICT Infrastructure

Two of these have been included in the 2019/20 plan, although due to changes in risk and priorities the others have been removed completely.

During the year we were also requested to undertake the following additional work:

- Procurement Card
- ICT consultancy report
- Fraud Risks

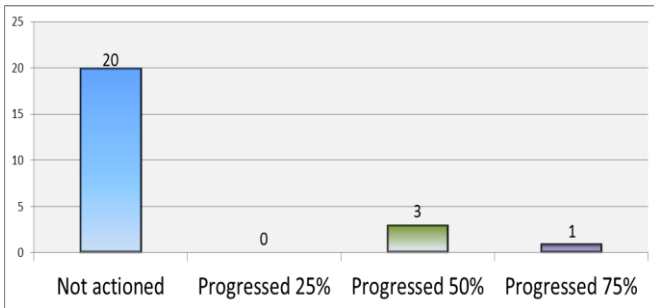
### Overall Actions remaining to be implemented



### High Priority Actions remaining to be implemented

Overall

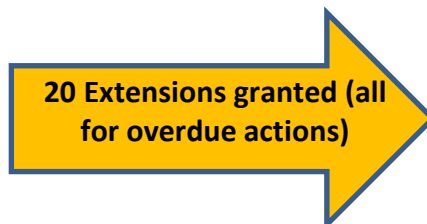
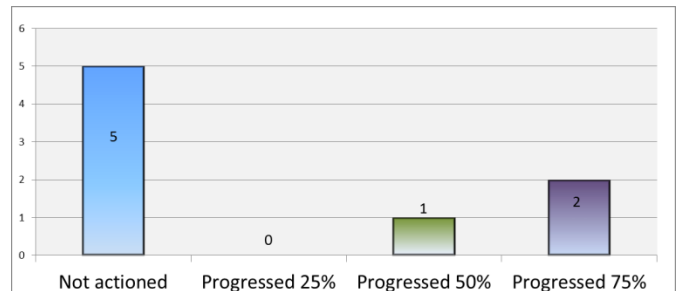
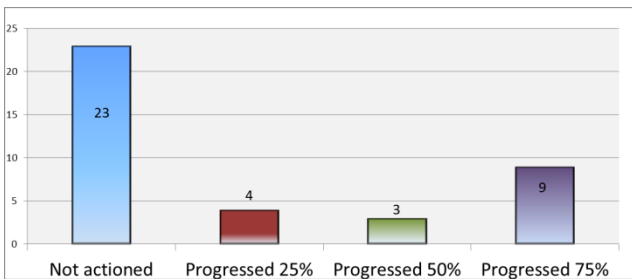
Overdue



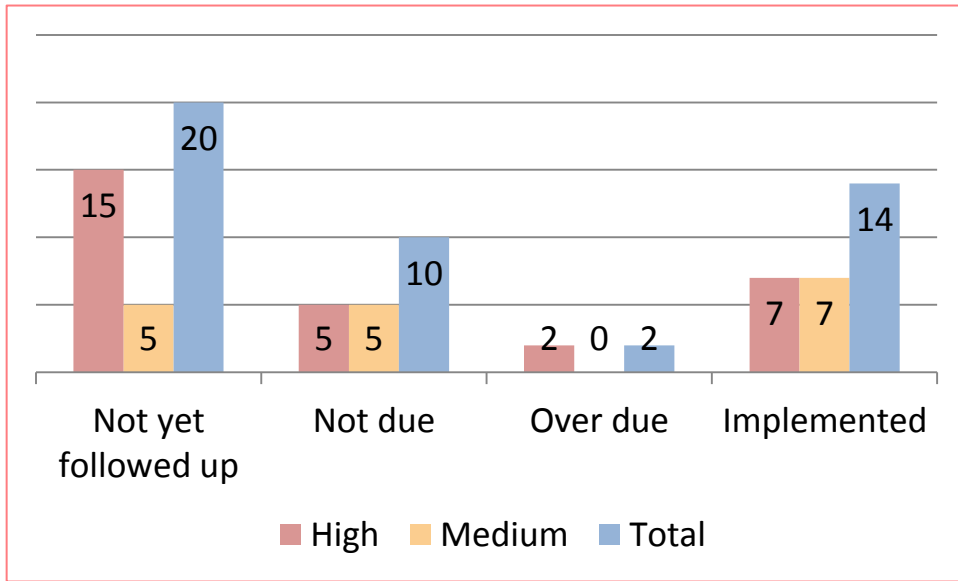
### Medium Priority Actions remaining to be implemented

Overall

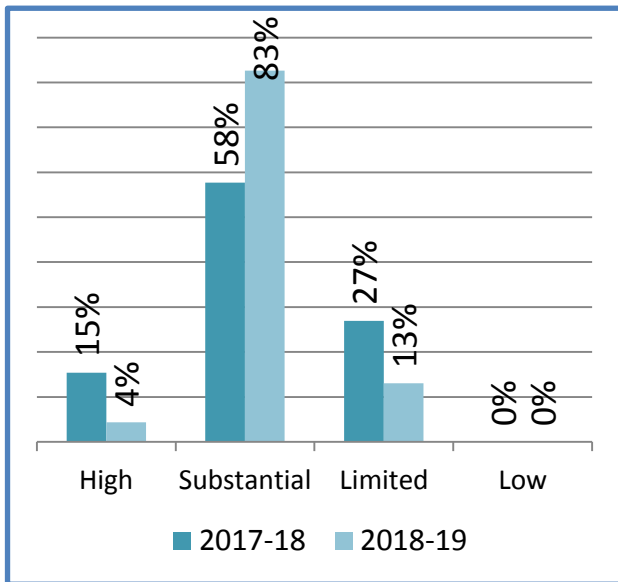
Overdue



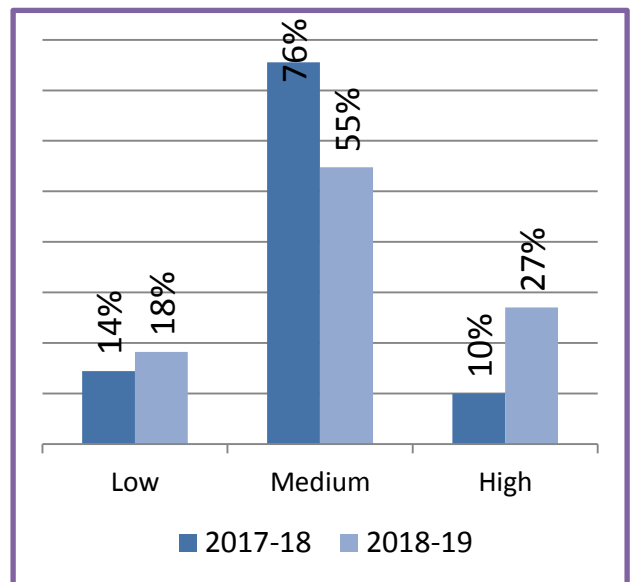
### Status of Actions within Limited or Low reports for 2018/19



### Comparison of Assurances



### Comparison of Recommendations



## Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	99%
Percentage of recommendations agreed	100%	99%
Percentage of 2018/19 Actions implemented	100% or escalated	51%
<b>Timescales:</b>		
Draft Report issued within 10 days of completion	100%	100%
Final Report issued within 5 days of management response	100%	72%
Draft Report issued within 2 months of fieldwork commencing	80%	65%
Client Feedback on Audit (average)	Good to excellent	Excellent



**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 limited level of confidence (assurance) on service delivery arrangements, management of risks, and the 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**

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.

**Significance**

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

**Head of Internal Audit Annual Opinion**

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

**Governance**

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

**Risk**

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

**Control**

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

**Impairment**

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

## **AUDIT & ACCOUNTS COMMITTEE**

**24 JULY 2019**

### **INTERNAL AUDIT REPORT PROCESS**

#### **1.0 Purpose of Report**

- 1.1 To present a set process for internal audit reports to pass through SLT and on to the Audit and Accounts Committee.
- 1.2 To present to a set process for following up of agreed internal audit actions.

#### **2.0 Background Information**

- 2.1 Currently there is no documented procedure for internal audit reports to be circulated through SLT. These are emailed from the Business Manager – Financial Services for comments from SLT prior to being finalised with Assurance Lincolnshire. Once finalised the summaries are sent to the Audit and Accounts Committee for their comments.
- 2.2 Members of the Audit and Accounts Committee have asked for Management to attend the Committee to explain the status of reports and their recommended corrective actions.
- 2.3 There are currently no criteria for Management attending the Committee, and this report seeks to adopt a process to formalise this.

#### **3.0 New process for Limited and Low assurance audit reports**

- 3.1 All Internal Audit reports are graded as one of:
  - Low
  - Limited
  - Substantial
  - High
- 3.2 Currently Assurance Lincolnshire sends the draft reports through to the Business Manager – Financial Services for review, comment and approval by SLT.
- 3.3 It is suggested that all High and Substantial assurance reports are emailed through from the Business Manager – Financial Services through to SLT Members giving a week to comment where appropriate. Comments (where appropriate) will then be considered and the report finalised.
- 3.4 Where the report has Limited or Low assurance, the Business Manager – Financial Services will ask for this to be put onto the next SLT agenda and invite the Business Manager for the area to the meeting.
- 3.5 This will give SLT the chance to review and feed into, in conjunction with the Business Manager, the report. Dates will be agreed for management actions and this will then be finalised with internal audit.

3.6 It is then proposed that at the following but one meeting of the Audit and Accounts Committee, the Business Manager attends to update the Committee on the agreed actions following the SLT meeting. This process should continue until all of the agreed actions have been completed, giving the Committee assurance that all internal control issues have been mitigated.

3.7 The process above is outlined at **appendix A**. Should this process be adopted, it will be circulated within the organisation and held on the intranet for further reference.

#### **4.0 New process for following up agreed internal audit actions**

4.1 Within internal audit reports a number of actions may be agreed with a responsible officer together with an implementation date. These are tracked within the audit system and will be followed-up through a periodic check basis.

4.2 Periodically internal audit will send through a list of all current actions. Managers will be asked to comment on their current status (regardless of whether these are due) in order to assess how close to completion these actions are.

4.3 It may be that in order for certain actions to be completed on time, milestones are hit. Hence, should certain milestones not be achieved prior to the overall completion of the action, it is important to update the relevant Director and the Audit and Accounts Committee that these actions are likely to need an extension to the original agreed date.

4.4 The Director will then comment on these and approve where appropriate.

4.5 Revised dates will then be agreed through the Directorate Management Team meeting and reported back to Assurance Lincolnshire and back to the Audit and Accounts Committee through the internal audit progress report.

4.6 The flowchart at **appendix B** sets out the approach to agreeing the extension dates of management actions.

#### **5.0 Equalities Implications**

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

#### **6.0 Financial Implications (FIN19-20/260)**

6.1 There are no direct financial implications arising from this report.

#### **11.0 RECOMMENDATION**

**7.1 That the process as set out in appendix A is adopted for the flow of internal audit reports.**

**7.2 That the process as set out in appendix B is adopted for the extension to dates for the completion of management actions.**

**Reason for Recommendations**

**To ensure that SLT and the Audit and Accounts Committee are aware of the internal audit process and that management actions are completed within the timeframe that has been agreed by management.**

**Background Papers**

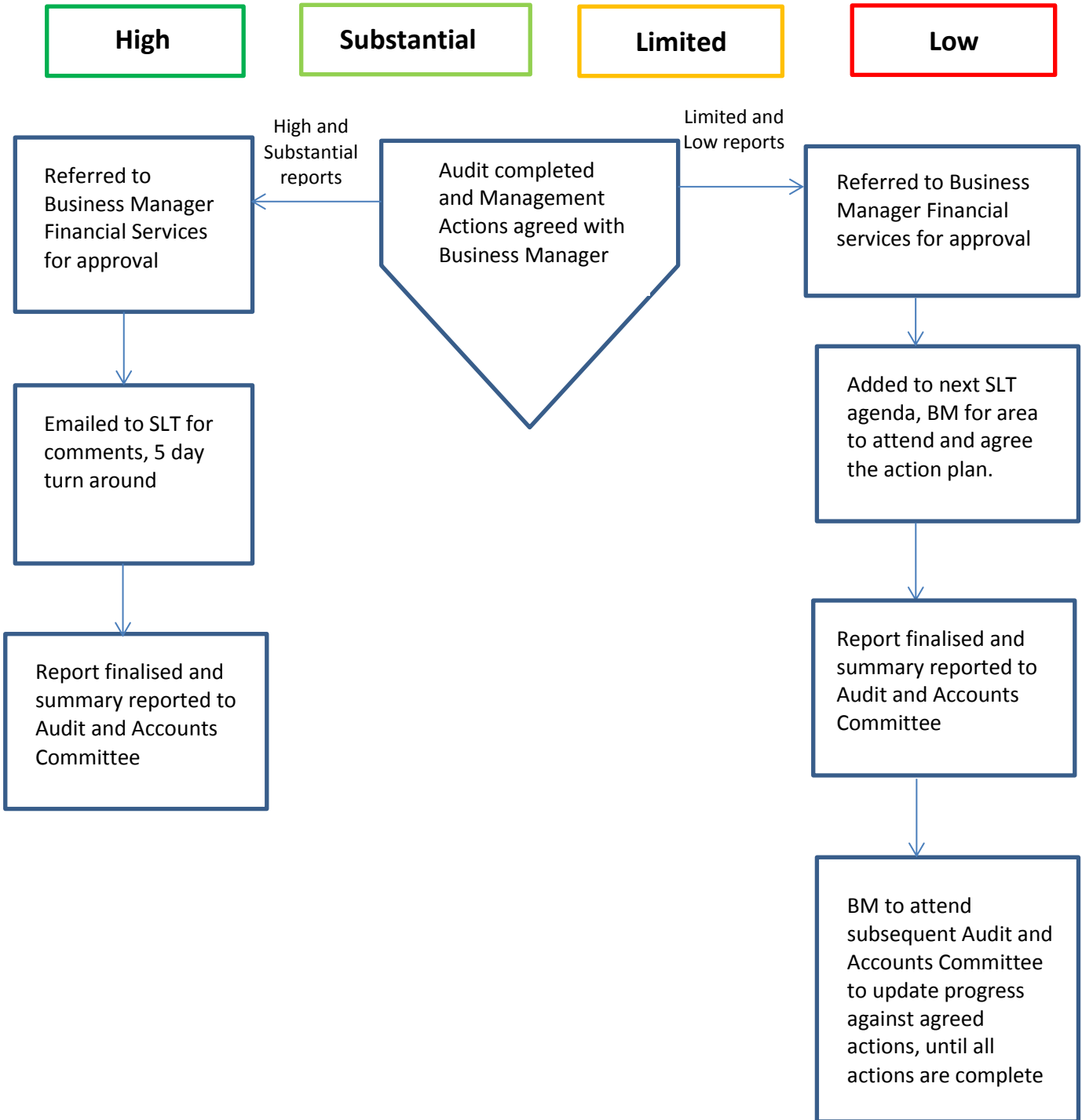
None

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

Nick Wilson  
Business Manager - Financial Services

## Process for the flow of Internal Audit reports within the Council

All internal audit reports are categorised into 4 classes of assurance. The below sets out the process that a report will follow once this has been agreed with the Business Manager:-



## Process for the follow-up of Audit Actions

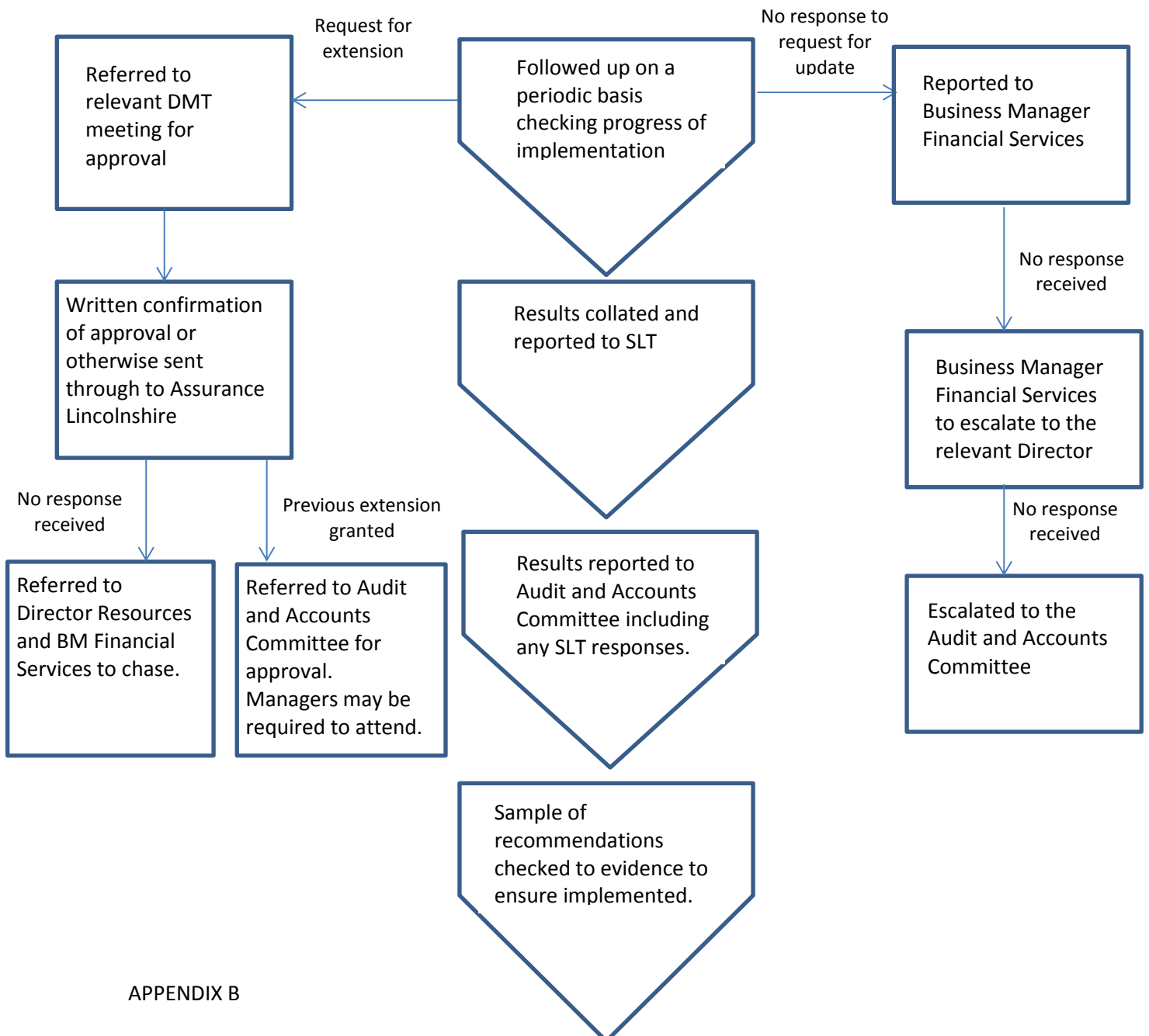
Within Internal Audit reports a number of actions may be agreed each with a responsible officer and implementation date. These are tracked within the audit system and will be followed-up and reported as below:-

**Low**

These are for management information only and are not followed up.

**Medium**

**High**



**AUDIT & ACCOUNTS COMMITTEE****24 JULY 2019****WORK PLAN**

<b>Meeting at which action to be undertaken</b>	<b>Subject and Brief Description</b>	<b>Who will present the report</b>	<b>Intended Outcome</b>
<b>24 July 2019</b>	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
	Annual Internal Audit Report 2018/19	Lucy Pledge/Rachel Abbott (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
	Internal Audit Progress Report 2019/20	Lucy Pledge/Rachel Abbott (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate



			identified risks
	Internal Audit Report Process	Nick Wilson	To set a process for the internal flow of internal audit reports
	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
	Audit Committee Work Programme	Nick Wilson	
<b>27 November 2019</b>	Treasury Performance half-yearly report	Andrew Snape	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Internal Audit Progress Report 2019/20	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 2018/19	TBC(Mazars)	Gain assurance on the Council's Statement of Accounts and arrangements for achieving Value for Money
	Counter-Fraud Activity Report	Nick Wilson	Gain assurance that counter-fraud activity is appropriately targeted and effective
	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
	Responses to questions raised at previous meeting	Nick Wilson	
	Audit Committee Work Programme	Nick Wilson	
<b>5 February 2020</b>	Draft Treasury Strategy 2020/21	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 2020/21	Andrew Snape	Outlines the principles and framework that shape the Council's capital proposals
	Draft Investment Strategy 2020/21	Andrew Snape	The investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government.
	Internal Audit Progress Report 2019/20	Lucy Pledge/Rachel Abbott	Understand the level of assurance for

		(Assurance Lincolnshire)	audited activities and ensure management progress recommended actions to mitigate identified risks
	External Certification of Grant Claims and Returns 2018/19	TBC (Mazars)	Gain assurance that claims and returns have been managed appropriately,
	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 2020/21	Lucy Pledge/Rachel Abbott (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	
<b>22 April 2020</b>	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 2019/20	Lucy Pledge/Rachel Abbott (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
	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place
	External Audit Plan for 2019/20 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	