NEWARK & SHERWOOD
DISTRICT COUNCIL

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AUDIT & ACCOUNTS COMMITTEE

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Your ref:
Our ref:

Date of Meeting: Wednesday, 26 April 2017
Time: 10:00 am
Venue: G21, Kelham Hall

Tuesday 18 April 2017

To: All Members of the Audit & Accounts Committee

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

A W Muter
Chief Executive

AGENDA
WEDNESDAY 26 APRIL, 10am

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

<u>Distribution</u>

Councillors: B. Crowe
Mrs M. Dobson
Mrs S.M. Michael (C)
Mrs P. Rainbow
B. Wells
P. Handley

Officers: N. Lovely
N. Pickavance
A. Hunt (Audit Lincs)
Lucy Pledge (Audit Lincs)
John Sketchley (Audit Lincs)
Jon Gorrie (KPMG)
Helen Brookes (KPMG)

NEWARK & SHERWOOD DISTRICT COUNCIL

Minutes of the meeting of the **AUDIT & ACCOUNTS COMMITTEE** held in Room G21, Kelham Hall on Wednesday, 8 February 2017 at 10:00am.

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

Councillors: G.P. Handley, Mrs P.J. Rainbow and B. Wells.

ALSO IN ATTENDANCE: Nicky Lovely - Business Manager & Chief Financial Officer - Financial Services (NSDC)
John Sketchley - Audit Manager (Assurance Lincolnshire)
Amanda Hunt - Principal Auditor (Assurance Lincolnshire)
Tara Beesley - Accountant (NSDC)
Jonathan Gorrie - Director (KPMG)
Helen Brookes - Manager (KPMG)
Richard Bates – Safety and Risk Management Officer (NSDC)
Lee Robinson – Business Manager, Technical Support for Minute 39

34. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor R.A. Crowe.

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

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

36. DECLARATION OF ANY INTENTION TO RECORD THE MEETING

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

37. MINUTES OF MEETING HELD ON 30 NOVEMBER 2016

AGREED that the Minutes of the meeting held on 30 November 2016 be approved as a correct record and signed by the Chairman.

38. DRAFT TREASURY STRATEGY

The Committee considered the draft Treasury Strategy, prior to approval by Council on 9 March 2017. The report included prudential indicators, minimum revenue provision policy, the Treasury Management Strategy Statement and the Investment Strategy. Information regarding the economic background from the Council's Treasury Management consultants had been included in the report, highlighting the uncertainties due to Brexit and the interest rate forecast.

The Council had an increasing Capital Financing requirement due to the Capital Programme and would need to assess the need to borrow. The Council's investment strategy remained maintaining security and liquidity over return, however the Council would look to increase return within secure investments. Diverse options for investments were included within the strategy, to provide an alternative from investments in banks where security ratings were reducing. Financial limits on investments over 364 days were also detailed in the report.

The Business Manager and Chief Financial Officer- Financial Services confirmed that there was delegated authority to officers to make the investments within the remit of the Treasury Strategy, however, it had been agreed that were the Council to consider investment in foreign banks, these would be brought before the Committee.

AGREED (unanimously) that it be recommended to Council to approve:

a) the Treasury Management Strategy 2017/18;

b) the investment counterparty criteria listed in paragraph 5.4 of the report;

c) the Prudential Indicators and Limits set out in the report; and

d) the Minimum Revenue Provision statement contained in paragraph 7.3 of the report.

39. INTERNAL AUDIT PROGRESS REPORT

John Sketchley and Amanda Hunt (Assurance Lincolnshire) presented the Internal Audit Progress Report for the period to 13 January 2017. Members heard that one report was outstanding from 2015/16, which was Procurement and was at the draft report stage. Work continued on the 2016/17 audit plan, and one report had been issued on Transport Vehicle Maintenance with substantial assurance. 46% of the plan had been completed and Members heard that additional resources had been acquired to help maintain progress to deliver the plan within time.

The Business Manager and Chief Financial Officer- Financial Services informed Members that an additional piece of work had been undertaken by Assurance Lincolnshire in relation to the recent thefts of car parking machines in the District to help ensure the security of the staff and car park cash.

The Business Manager- Technical Support was in attendance to provide an update to Members on outstanding recommendations from the audit of ICT- Uniform. He informed Members that all the outstanding recommendations had now been implemented and explained that this had required substantial time resource due to the technicalities involved in implementing the recommendations. This had been the reason for the delay.

AGREED (unanimously) that the report be noted.

40. COMBINED ASSURANCE REPORT

The Business Manager and Chief Financial Officer- Financial Services presented the Combined Assurance Report covering the period to the end of December 2016. The report demonstrated the level of assurance the Council had at a set point in time, and identified any gaps, which could then be addressed in the internal audit plan. Officers from the Corporate Management Team (CMT) were asked to provide commentary for any lower levels of assurance highlighted within their remits, and to outline the risk and any mitigating actions undertaken.

The Committee considered the report, focussing on risks highlighted under key partnerships and key projects.

AGREED (unanimously) that the report be noted.

41. ANNUAL INTERNAL AUDIT PLAN 2017/18

John Sketchley (Assurance Lincolnshire) presented the Annual Internal Audit Plan for 2017/18. The Plan had been developed along with officer input to help address any gaps in assurance as identified in the Combined Assurance Report. The Plan was focussed on demonstrating assurance in the critical systems of the Council, due diligence, strategic and emerging risks, key transformational programmes and ICT Assurance.

The Committee noted the areas that had not been included in the proposed plan, particularly the Project/Programme Management which had a red risk rating. The Committee heard that this was not included as most of the projects related to the Moving Ahead project which in itself was audited. The Committee also acknowledged, that should further works be required, these could be requested in addition to the plan.

AGREED (unanimously) that the Internal Audit Plan 2017/18 be approved.

42. EXTERNAL AUDITOR PROGRESS REPORT AND TECHNICAL UPDATE

Jonathan Gorrie (KPMG) was in attendance to present the External Audit Progress report and technical update. Members heard that the 2015/16 audit had been completed with the opinion and certificate issued in September 2016. Grant Certification work had been completed, for consideration by the Committee. Planning was underway for the 2016/17 audit, which included Value for Money Conclusion works. The Business Manager and Chief Financial Officer- Financial Services informed the Committee that officers were already meeting the new earlier deadline for preparation of the annual accounts.

AGREED (unanimously) that the report be noted.

43. EXTERNAL AUDITORS CERTIFICATION OF GRANT CLAIMS AND RETURNS

Helen Brookes (KPMG) presented the External Auditors Certification of Grant Claims and Returns. Each year an audit of the Council's grant claims and returns was undertaken by KPMG. One grant claim totalling totalling £26.7m and one return had been audited.

A qualified opinion was given for the audit of the Housing Benefit Subsidy grant. The reasons for the qualification were small value errors identified in a sample of benefits payments. A small adjustment of £513 was necessary to the amount of grant as a result of the audit work. No issues were found with the Capital Receipts Pooling return.

The total fee for the grants and returns certification work was £8,525, a decrease of £5,171 compared to the 2014/15 fee. The reduction was due to the fact that less work was required than in 2014/15.

AGREED (unanimously) that the report be noted.

44. RISK MANAGEMENT REPORT AND STRATEGIC RISK REGISTER

The Safety and Risk Management Officer presented a report detailing the status of the Strategic Risks for the Council. He explained that the Risk Management Policy was up to date. The most recent update was undertaken in 2016 and included a new section defining the Council's risk appetite. A further programmed review was planned for late 2017.

The Committee heard a number of amendments to the risks identified as a result of a recent CMT workshop, which were:

- Removal of austerity from SR001, as this was now the normal approach to working;
- SR002- Major projects had increased in score to red- Significant Critical;
- SR007- had been amended to include flooding; and
- SR009- had been amended to include reference to cyber-attacks.

The Committee also noted that whilst the Risk Management Group met on a quarterly basis, the red rated strategic risks were monitored on a monthly basis as a consequence of their potential impact on service delivery.

AGREED (unanimously) that the report be noted.

45. FRAUD RISK ASSESSMENT

The Business Manager and Chief Financial Officer- Financial Services presented an updated Fraud Risk Register, following a recent piece of work undertaken with Business Managers to update the Register.

Eighteen areas of the Council were considered to be at risk of fraud, with four having additional sub categories of fraud risk. Six risks were considered to be medium (amber), and sixteen were low risk (green). Cyber fraud had been added to the Risk Register at amber level. The incidence of this was increasing globally and some neighbouring authorities had been affected. However, controls were in place to mitigate the risk. A sub category of electoral registration for individual elector registration had also been added. Controls had been put in place when the new system was set up and the risk was rated green.

The further actions that have been implemented up to December 2016 which would help to mitigate fraud risks included:

- The Local Council Tax Support Scheme was now included in the National Fraud Initiative data-matching exercise;
- The use of an external company to provide intelligence on businesses that could impact on rates payable;
- A shared resource with Bassetlaw to inspect businesses that had not made an appeal;
- Financial Regulations training had been provided for all relevant staff;
- The move to no longer taking cash;
- Further guidance was available on the intranet; and an
- Improved reconciliation processes.

A number of new actions were outstanding, however, the Register was reviewed and updated regularly and reported to the Committee.

AGREED (unanimously) that the report be noted.

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

The Business Manager and Chief Financial Officer- Financial Services presented a report updating Members on significant governance issues identified in the Annual Governance report. These included: Relocation of Council Headquarters; Organisational Change; Management of Leisure Services; Collaboration Agreement; Partnership Working; and Counter Fraud Arrangements.

The Committee noted the progress of work done on addressing each of these control issues.

AGREED (unanimously) that the report be noted.

47. RESPONSES TO QUESTIONS RAISED AT PREVIOUS MEETING

The Committee considered the report detailing the answer to a question in relation to the amount of council tax collected and the amount of write-offs.

AGREED (unanimously) that the report be noted.

48. AUDIT COMMITTEE WORK PROGRAMME

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

AGREED that the Work Plan be noted.

49. DATE OF NEXT MEETING

NOTED that the date of the next meeting was Wednesday, 26 April 2017, at 10am in G21.

The meeting closed at 11.21am.

Chairman

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO. 5**
26 APRIL 2017

STATEMENT OF ACCOUNTING POLICIES 2016/2017

1.0 Purpose of Report

1.1 To provide Members with any updates made to the Council's accounting policies in relation to the closedown of the 2016/2017 financial year.

2.0 Introduction

2.1 Prior to the completion of the Statement of Accounts for 2016/2017 it is important that Members are given the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies will be applied to the treatment of all transactions that make up the figures in the Statement of Accounts to ensure the accounts present a true and fair view of the financial position of the Council as at 31 March 2017.

2.2 The 2016/2017 Statement of Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (the Code) which is based on International Financial Reporting Standards (IFRS).

3.0 Updates to the Statement

3.1 The 2016/2017 Code introduces major changes to IAS 1 Presentation of Financial Statements. The changes do not impact on any policies.

3.2 In addition minor amendments have been made to

- IFRS 11 Joint Arrangements
- IAS 19 Property, Plant and Equipment
- IAS 38 Intangible Assets
- IAS 19 Employee Benefits

3.3 A new policy, 1.9 Employee Benefits Payable during Employment, has been included within the Council's policies for 2016/2017. The policy describes the process by which the Council accrues for the cost of untaken leave at the end of the financial year. The policy is in accordance with IAS 19 Employee Benefits.

3.4 A new policy, 1.21 Council Tax and Non Domestic Rates has been introduced to clarify the Council's position in respect of how it accounts for both Council Tax and NDR. The policy has not been introduced as a result of any code changes but rather following the review of policies in the lead up to the 2016/2017 year end. There have been no other policy changes for 2016/2017.

3.5 The order of the policies has been reviewed and the policies renumbered following the introduction of the two new policies. A complete set of the Accounting Policies for 2016/2017 are attached at **Appendix A**.

4.0 RECOMMENDATION

Members approve the amended Statement of Accounting Policies for 2016/2017.

Background Papers

Nil

For further information please contact Nicola Pickavance on extension 5326.

N. Lovely
Business Manager & Chief Financial Officer – Financial Services

APPENDIX A

Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/2017 financial year and its position at the year-end of 31 March 2017. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/2017 (the Code) supported by International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified firstly by the revaluation of certain categories of non current assets and secondly as regards the valuation of stocks. Accounting policies and estimation techniques have been selected and exercised, having regard to the accounting principles and concepts set out in IAS 8, specifically the qualitative characteristics of financial information:

- Relevance
- Reliability
- Comparability
- Understandibility
- Materiality

and pervasive accounting concepts:

- Accruals
- Going Concern
- Primacy of legislative requirements

1.2 Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

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

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

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

Amendments have been made to the following accounting standards which have been adopted fully by the Council in the 2016/2017 statements:

- IAS 19 Employee Benefits
- IFRS 11 Joint Arrangements
- IAS 16 Property Plant and Equipment
- IAS 38 Intangible Assets
- IAS 1 Presentation of Financial Statements

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

1.4 Provisions, Contingent Liabilities and Contingent Assets

Provisions: are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Provisions may also be created where there is some uncertainty over the Council's entitlement to receive income. This may arise in connection with changes in the eligibility criteria of central government programmes or as a result of the interpretation of new legislation.

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

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

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

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

1.5 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus/Deficit on Continuing Operations in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non current fixed assets and retirement benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies below.

1.6 Government and Other Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations (including donated assets), both revenue and capital, are recognised as due to the Council when there is reasonable assurance that

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the Comprehensive Income and Expenditure Account.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and New Homes Bonus Grant) and all capital grants and contributions are credited to Taxation and Non Specific Grant Income. Capital grants are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Community Infrastructure Levy: the authority has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds with appropriate planning consent. The Council charges and collects the levy which is received without outstanding conditions and is, therefore, treated in accordance with the policy set out above. The income from the levy will be largely used to fund capital infrastructure projects, however a small proportion may be used to fund revenue expenditure.

1.7 Termination Benefits

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

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

1.8 Post Employment Benefits

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

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

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price.
- unquoted securities - professional estimate.
- unitised securities - current bid price.
- property - market value.

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

- Service Cost comprising
- current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the (Surplus)/Deficit on Continuing Operations in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- net interest on the net defined benefit liability or asset ie net interest expense for the authority – the change during the period in the net defined benefit liability or asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset at the beginning of the period – taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments
- Remeasurements comprising
- the return on plan assets – excluding amounts included in net interest on the defined benefit liability or asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

1.9 Employee Benefits Payable during Employment

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

1.10 Value Added Tax

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

1.11 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SerCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs - discretionary benefits awarded to employees retiring early and depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement Account, as part of Continuing Operations.

The bases of allocation used for the main categories of overhead and support services are outlined below:

Service	Basis of Charge
Administrative Buildings	Area occupied
Information Communication Technology	Systems operated and equipment utilised
Audit	Staff time
Revenue Collection Services	Transactions
Human Resources	Staff numbers
Administrative Services	Staff time
Legal	Staff time
Financial Services	Staff time and transactions
Central printing, telephones and postages	Transactions
Corporate Property Services	Staff time
Management and Administration	Staff time

1.12 Non Current Assets

Non current assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition*:* expenditure on the acquisition, creation or enhancement of non current assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. Expenditure under the value of £15,000 is treated as de-minimis.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Investment Properties and Surplus Assets – fair value
- Infrastructure Assets – are written off in full if they have no tangible value
- Community Assets (including property Heritage Assets) and Assets Under Construction (excluding Investment Property under construction) – measured at historical cost
- Other Land and Buildings, Vehicles, Plant and Equipment – fair value or, where there is no market based evidence of fair value, depreciated historical cost
- Council Dwellings – fair value measured using existing use value – social housing
- Assets Held for Sale – the lower of carrying amount and fair value less costs to sell
- Heritage Assets (non property) – insurance cost valuation

Fair Value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date and can be further assessed as follows:

- Property Plant and Equipment – the amount that would be paid for the asset in its existing use (current value)
- Investment Properties and Surplus Assets– the amount that would be paid for the asset in its highest and best use ie market value
- Assets Held for Sale – the amount that would be paid for the asset in its highest and best use ie market value

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

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

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

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Non-revalued asset – recognised in the Comprehensive Income and Expenditure Statement
- Revalued asset (for both asset specific and non asset specific impairment) - recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter to the Comprehensive Income and Expenditure Statement
- Investment Properties and Assets Held for Sale– all impairments are charged direct to the Comprehensive Income and Expenditure Statement

Impairment losses are not proper charges to the General Fund and any such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of other operating expenditure. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of other operating expenditure (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

The Council has taken advantage of the ability to earmark all sales of non right to buy housing revenue account land and property for the provision of affordable housing. In this way 100% of such sales can be retained.

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

Depreciation: depreciation is provided for on all non current assets with a determinable finite life (except for investment properties, assets held for sale and land with an unlimited useful life) by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

Asset	**Depreciation Method**	**Useful Life in Years**
Council Dwellings	Straight line allocation over the life of the property as estimated by the Valuer	35 – 50
Other Buildings	Straight line allocation over the life of the property as estimated by the Valuer	20 – 100
Vehicle, Plant and Equipment	Straight line allocation, taking into account any residual value, over their useful life as advised by a suitably qualified officer	5 – 10
Infrastructure	Straight line (where asset has tangible value)	25
Community Assets	Straight line	100
Surplus Assets	Straight line	10 -100
Land	No depreciation charged	
Assets Under Construction	No depreciation charged	
Assets Held for Sale	No depreciation charged	
Investment Properties	No depreciation charged	

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

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

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

Intangible Assets: expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

1.13 Charges to Revenue for Non Current Assets

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

- depreciation attributable to the assets used by the relevant service.
- impairment losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off or which have been recognised on investment properties and assets held for sale.
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.14 Revenue Expenditure Funded from Capital under Statute

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

1.15 Leased Assets

Finance leases. Assets acquired under finance leases are capitalised in the authority's accounts, together with the liability to pay future rentals. The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a non current asset - the liability is written down as the rent becomes payable) and

- a finance charge (debited to (Surplus)/Deficit on Continuing Services in the Comprehensive Income and Expenditure Statement as the rent becomes payable).

Non current assets recognised under finance leases are accounted for using the policies applied generally to Non Current Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases. Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

1.16 Financial Liabilities

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

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

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

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

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

1.17 Financial Assets

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

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

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

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

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

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

1.18 Interests in Companies and Other Entities

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

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

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

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

1.19 Cash Equivalents

Cash equivalents are held for the purpose of meeting short term commitments rather than for investment or other purposes. The Council classifies the following as cash equivalents:

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

1.20 Events After the Reporting Period

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

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

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

1.21 Council Tax and Non Domestic Rates

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

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

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

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO.6**
26 APRIL 2017

UNDERLYING PENSION ASSUMPTIONS FOR 2015/2016 STATEMENT OF ACCOUNTS

1.0 Purpose of Report

1.1 To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2016/2017 Statement of Accounts.

2.0 Introduction

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

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

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

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

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

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

2.7 The Actuary's report for 2016/2017 is due to be received on 21 April 2017. The figures for 2016/2017 will, therefore, be provided at committee.

3.0 Financial Assumptions

	2016/2017	2015/2016
Price Inflation This allows for the effect of inflation on salary growth RPI CPI		 3.2% 2.3%
Pension Increase Rate Public sector pension increases are linked to the Consumer Prices Index (CPI).		2.3%
Salary Increase Rate Reflects the expected rate of growth in pensionable pay, allowing for increases over and above inflation, eg career progression		4.1%
Discount Rate This allows for the effect of inflation on the liabilities in the scheme.		3.6%

4.0 Demographic Assumptions

	2016/2017	2015/2016
Pensioner Mortality Life expectancy from age 65 years This impacts on the length of time pensions are expected to be payable Retiring today Retiring in 20 years		 Male 22.1 Female 25.3 Male 24.4 Female 27.7
Commutation This allows for the effect of future retirees choosing to take a larger initial lump sum and reduced annual pension.		50%
Timing of Retirement Members will retire at one retirement age for all tranches of benefit		Pension weighted average tranche retirement age
LGPS 2014 50% Contribution The % of active members who will take up the option to pay 50% of contributions for 50% pf benefits		10%

5.0 Impact in Financial Statements

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

6.0 RECOMMENDATION

Members note and approve the assumptions used in the calculation of pension figures for 2016/2017.

Background Papers

Nil

For further information please contact Nicola Pickavance on extension 5326.

Nicky Lovely
Business Manager & Chief Financial Officer - Financial Services

PROPOSED TRAINING SESSION ON THE 2016/17 STATEMENT OF ACCOUNTS

1.0 Purpose of Report

1.1 To advise Members of a training session to cover their role in approving the Statement of Accounts.

2.0 Proposed Training Session

2.1 The remit of the Audit & Accounts Committee includes the requirement to approve the Council's annual Statement of Accounts.

2.2 It is currently a statutory requirement that the Statement of Accounts must be approved and published by 30 September each year. From the 2017/18 financial year this will move to 31 July. In order to prepare for this earlier deadline Financial Services are intending to present the 2016/17 Statement of Accounts to Committee by 31 July 2017.

2.3 The financial statements are detailed and complex, so to give Members confidence in approving the Statement of Accounts, training is provided each year to assist understanding. A training session will be provided prior to the July meeting of the Committee. The suggested alternative dates for this training session are:

Tuesday, 11 July – 2pm
Wednesday, 12 July - 9.30 am or 2pm
Wednesday, 19 July - 9.30am or 2pm
Thursday, 20 July – 9.30am or 2pm

The training will last from one and a half to two hours.

3.0 Equalities Implications

3.1 There are no equalities implications. All Members of the Committee will be invited to attend the training session.

4.0 Impact on Budget/Policy Framework

4.1 The proposed training session to cover the Statement of Accounts will be provided within existing budgets.

5.0 RECOMMENDATION

That the Committee agree the date for the Statement of Accounts training to be provided.

Reason for Recommendation

To ensure that Members of the Audit & Accounts Committee are equipped with the knowledge and skills necessary to undertake their role.

Background Papers

Remit of the Audit & Accounts Committee

For further information please contact Nicky Lovely – Business Manager & Chief Financial Officer - Financial Services on Ext 5317

Nicky Lovely
Business Manager & Chief Financial Officer – Financial Services

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO. 8**
26 APRIL 2017

INTERNAL AUDIT PROGRESS REPORT

1.0 Purpose of Report

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

2.0 Introduction

2.1 The purpose of the internal audit progress report (Annex A) is to provide a summary of Internal Audit work undertaken during 2016/17 against the agreed audit plan.

3.0 RECOMMENDATION

That the Audit & 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.

Nicky Lovely
Business Manager & Chief Financial Officer - Financial Services

Internal Audit Progress Report April 2017

For all your assurance needs

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Appendices

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For all your assurance needs
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Introduction

1. The purpose of this report is to:

   - Advise of progress made with the 2016/17 Audit Plan as at 31 March 2017
   - Provide details of the audit work undertaken since the last progress report.
   - Provide details of the current position with agreed management actions in respect of previously issued reports
   - Raise any other matters that may be relevant to the Audit and Accounts Committee role

Key Messages

2. There is still one job remaining from the 2015/16 plan, Procurement. The revised draft report was passed to the auditee in July 2016 and we are awaiting comments from the auditee.

3. Work continues to progress on the 2016/17 audit plan, we have completed 2 jobs since our last progress report, we have 8 at draft report stage and 6 more in progress. We only have 1 remaining job which we have not been able to start due to the auditee not providing us with a start date. Appendix 1 provides details on the current status of the plan.

4. Good progress has been made in implementing audit recommendations - there are currently 2 overdue actions for CCTV and Anti-Social Behaviour.

5. As at the end of March we have delivered 68% of the 2016/17 plan in terms of days/ 46% of jobs. We currently have 31% of jobs at draft report stage and 23% in progress. We reported at the February Committee that slippage in the early months had caused some delays but we are pleased to report that all audits which we have been able to commence have commenced and are on target to be completed to report stage by the end of April. Appendix 1 shows our performance to 31 March 2017.

6. We have completed the audit review of the Southwell Leisure Centre and the report has been issued to them.

7. We have also completed a piece of consultancy work on the Business Continuity Plan. This was initially included as an audit but management requested that we undertake a consultancy piece of work due to the current position of the Plan. The Management Summary is included below:-

Business Continuity for the Council is about identifying those parts of the services you cannot afford to lose. It is the responsibility of the Community Safety Business Unit. It is the Council's obligation and civil protection responsibility to ensure that they have a robust Business Continuity Management system (BCM) in place that meets the needs of the currently environment in which they operate.

Newark & Sherwood District Council (NSDC) once had a robust BCM in place; however current Business Continuity Planning (BCP) documentation has not been reviewed since 2014/15 and is out of date with the current NSDC structure. We acknowledged that there have been several staff changes and department restructures which were a contributing factor.

We found it difficult to identify the critical areas of the business set out within the BCP as all business areas have been included. And we could not establish how this would affect the delivery of services should there be a disruption to any department in its daily operations.
There has been no testing of the BCP evidenced; however, it was acknowledged ICT regularly test their systems. The testing is done out of normal working hours to ensure minimal impact of daily operations. This is not classed as BCP testing.

There is a feeling that staff are confusing "Emergency Planning" with "Business Continuity", as one and the same thing. NSDC are currently working on their Emergency Planning to ensure it is robust and up to date. It would be in the Council's best interest to also start work on putting a robust BCP in place and bring staff up to date with the difference between the two areas and understand the role they play in BCM.

We advised within the report a number of best practise guidelines for NSDC to consider. These included:-

- Introduction of a BCM policy
- Formation of BCM working group
- Completing a Business Impact Assessment (BIA)
- Review and updating of BCP
- Embedding BCM into 'business as usual' and relevant agendas
- Raising staff awareness through CMT blogs, training and testing of BCP

As part of the consultancy review, the move from Kelham Hall to Castle House was reviewed, it was established that risks have been identified but no BCP has been set out. With the move to take place in September, we advised that the moving ahead project is an ideal starting point for the BCP review as this will capture the council's new ways of working and all relevant third party partnerships come September.

We conclude that NSDC have significant work to carry out to ensure that they have a robust and practical BCM and BCP embedded into the everyday running of the Council and its services.

Business Continuity is a Strategic Risk for the Council therefore we feel it would be beneficial for us to carry out a full assurance review in 2017/18 to document the progress made. We ask that Members of the Audit and Accounts Committee consider approving the use of some of the contingency budget within the 2017/18 Audit Plan for this.

Overdue Audit Recommendations

8. There are currently two overdue management actions that were due for completion by the 31st March 2017. Both of these relate to the Community Safety Business Unit , 1 relating to CCTV and the other Anti-Social Behavior. Appendix 2 provides details of the outstanding recommendations.

Performance Information

9. Our performance is measured against a range of indicators. We are pleased to report a good level of achievement against our targets – the table below shows our performance on key indicators as at 31 March 2017.

Performance Details 2016/17 Planned Work

Performance Indicator	Target	2016/17 Actual @ 31/03/17
Percentage of plan completed.	100% (Annual year end)	68%*
Percentage of key financial systems completed.	100% (Annual year end)	71%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations implemented.	100%	94%
Timescales a) Draft report issued within 10 working days of completing audit. b) Final report issued within 5 working days of closure meeting / receipt of management responses. c) Draft report issued within 2 months of fieldwork commencing	▪ 100% ▪ 100% ▪ 80%	▪ 100% ▪ 90% ▪ 87%
Client Feedback on Audit (average)	Good to excellent	Good

*Indicator based on the number of days spent against the total number of days within the revised annual plan (46% of jobs have been completed).

10. We have been unable to progress one of the Audits within the 2016/17 Audit Plan, Emergency Planning, which is the responsibility of the Community Safety Business Unit, as it has not been possible to set a start date with the Auditee. We agreed to postpone it until March due to their capacity being used for the Business Continuity Audit but have not been able to agree a date since then. We have some concerns in this area following completion of the Business Continuity audit and will therefore roll this audit into the 2017/18 plan and continue to request a start date.

11. We reported to the Committee in February that due to slippage in the plan earlier in the year we would not have it fully completed by the end of March. We stated that we would have all audits started by the end of March and all but the one mentioned in paragraph 10 have commenced. There are currently eight audits at draft report stage. We also stated that we would have all audits completed to at least draft report stage by the end of April and we are currently on track to achieve this.

Appendix 1 – Audit Plan 2016/17 Schedule

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Critical Service Activities	**86**					
Director Communities						
Transport/Vehicle Fleet maintenance	10	Cost of maintaining and using Council vehicles is accurately and efficiently recorded and monitored.	August rescheduled to September	October	December 2016	Substantial
Security Audit	8	The building, it's physical and information assets are secure.	February	February		Draft report to be discussed 22/04/17
Car Parks	3.5	Additional work requested to provide assurance on the security of income.	August	August	January	Consultancy
Director Customers						
ICT Audit – Applications	10	Review of one or more key applications.	September	January		Draft report with CMT
ICT Audit – Database Management	8	Review of management of databases including listing, access etc	January	January		Fieldwork now commenced delayed due to awaiting ICT input.
National Civil War Centre/Palace Theatre	8	Follow-up visit following the integration ensuring that the recommendations made previously have been implemented, and the revised processes and security comply with relevant policies.	August	September		Draft report with auditee awaiting date for closure meeting.
Partnership – Active4Today	10	Effective partnership arrangements are in place ensuring delivery of the objectives set for the Company.	September	February		Testing half completed.
Director Safety						
Anti Social Behaviour and Domestic Violence	10	Compliance with The Anti-Social Behaviour, Crime & Policing Act 2014 and other Council	July	July	November 2016	Substantial

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		policies.				
Emergency Planning	10	Arrangements are in place which enable the Council to effectively manage an emergency planning situation.	February			Awaiting start date from auditee.
Ethics	10	There is a frame work and processes in place which ensures that the Council, Members and staff behave in an ethical manner.	December	February		Draft report in review process
Due Diligence	**93**					
<u>Director of Resources</u>						
Counter Fraud	5	Follow-up of previous reports and assurance that there are adequate arrangements in place post the DWP transfer.	January	January		Draft report with auditee
Key Control Testing	30	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council’s financial control environment	February			Testing half completed.
NNDR	8	The NNDR due is collected.	January	January		Draft report with CMT
Property, Plant and Equipment	7	Cyclical System Review	June	June	October	Substantial
Benefits	15	Cyclical System Review	May	May	July	Substantial
<u>Director Safety</u>						
Business Continuity	10	Arrangements are in place which enable the Council to effectively manage a business continuity incident. This will include arrangements for the move and new offices.	September postponed to February	February	March	Consultation report
Human Resources	10	There is an effective Human Resources service which provides support to the Business and ensures that all relevant policies are in place, monitored and complied with.	October postponed to December	December	January	Draft report with CMT
Risk Management	8	There are	November			Postponed to

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		arrangements in place which ensure that the risks are identified, monitored and mitigated.				2017/18 by auditee.
Key Projects	**30**					
Newark Sports Hub	8	The project is being effectively managed.	January			Cancelled by client.
Moving ahead – Gateway Review	10	The project is being effectively managed - Further gateway reviews to ensure processes and systems in place for project overall.	November	March		Testing commenced
Moving ahead – New build capital project	12	Capital expenditure on the new build offices is effectively managed.	January	March		Testing commenced
Strategic and Emerging Risks	**20**					
Housing and Planning Act	9	The requirements of the Act are identified, implemented and the effects of the implementation reported (including the effect on the HRA)	November			Postponed to 2017/18 by auditee.
Affordable Housing Growth	9	The requirements and impact of the Act are identified and relevant action taken.	October	February		Testing nearly complete
Revised Governance Framework – CIPFA SOLACE	2	Requirements of the revised framework have been identified and implemented/plans in place to implement.	October			Postponed to 2017/18 as a full audit required.
Other relevant Areas	**84**					
Mansfield Crematorium	5	Annual review of accounts.	April	April	May	Completed
Gilstrap Accounts	1	Annual review of accounts.	July	July	July	Completed
Cattle Market	6	Annual audit of rental fee and additional work requested.	May	September	December	Completed
Newark and Sherwood Homes	45	Internal Audit Plan 2016/17	Various			Audits all at draft report or completed.
Southwell Leisure	5	Financial Processes	November	November	March –	Completed

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Centre					delayed by auditee	
Combined Assurance	15	Updating assurances on the Council's assurance map with service managers and helping to co-ordinating the annual status report.	October	October	January	Completed
Follow-up of previous audit reports	7		Ongoing			
Non-Audit	**39**					
Advice & Liaison	15		Ongoing			
Annual Report	3		Ongoing	April	July	Completed
Audit Committee	10		Ongoing			
Review strategy and planning	3		Ongoing			Completed
Contingency	6.5	Original budget 10, 3.5 allocated to Car Parks work.	N/A	N/A	N/A	N/A
Grand Total (Revised)	**352**					

Appendix 2 - Overdue Audit Recommendations

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

Audit Area	Date	Assurance	No.of Agreed Recs	Implemented/ Closed	Outstanding *		Revised Implementation Date	Not Due
					H	M		
Safety								
Anti-Social Behaviour	Jul'16	Substantial	6	5	0	1	Revised to 31/03/17	0
CCTV	Feb'16	Substantial	5	3	0	1	1 revised from 30/06/16 to 31/01/17 and again to 31/03/17. 1 revised from 30/06/16 to 30/09/16 and again to 31/07/17.	1
Total			**11**	**8**	**0**	**2**		**1**

Appendix 3 - Assurance Definitions[1]

High Assurance	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial Assurance	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited Assurance	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low Assurance	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

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

KPMG

External Audit: Progress Report and Technical Update

Newark and Sherwood District Council

Audit and Accounts Committee – April 2017

Contents

The contacts at KPMG in connection with this report are:

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

The report also highlights some of the recent communications and other publications on the main technical issues which are currently having an impact in local government.

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

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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document 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 Jonathan Gorrie, 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 (on 0207 694 8981, or 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 3H.

External audit progress report

External audit progress report - April 2017

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

At Appendix 1 we have provided a technical update.

	Commentary
2016/17 audit	Since the last Audit and Accounts Committee meeting in February 2017 we have: ▪ Met with officers to update our risk assessment of the Authority and support the development of our External Audit Plan; ▪ Completed our planning work for the 2016/17 audit, the outcome of which is our External Audit Plan which is presented to this meeting of the Committee; ▪ Carried out our interim audit visit during March 2017. There are no significant matters arising to report to you at this stage; and ▪ Started our Value for Money (VFM) conclusion work. Our approach follows guidance specified by the National Audit Office in terms of the scope and focus of the work. We have performed an initial assessment of the use of resources risks identified through our risk assessment and the action that management is taking to achieve value for money. There is nothing that we need to report to you at this stage. We are aware of the uncertainties that remain in relation to the future of local government funding, and we will continue our assessment of your arrangements for planning for the future. Our work over the next quarter will include: ▪ Commencing our audit of your financial statements. Our year end audit visit has been confirmed and is due to commence on 19 June 2017; and ▪ Completing our assessment of your arrangements to provide value for money.
Technical Update	At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.
Actions	We ask the Audit and Accounts Committee to: ▪ **NOTE** this progress report.

Appendices

Inspiring innovative government

@gov is a government-focused digital magazine hosted on kpmg.com. Fresh content is added to *@gov* on a monthly basis and printable digest versions are produced twice annually. Each edition examines a new theme, the first of which is *Transforming government in the age of technology*.

This first edition contains a range of articles, which include articles on:

— establishing digital identities for citizens;

— government data sharing;

— the public policy imperatives of autonomous vehicles; and

— innovations in human service delivery.

The magazine can be downloaded as a PDF from kpmg.com/atgov

Publication 'Value of Audit - Perspectives for Government'

What does this report address?

This report builds on the Global Audit campaign – *Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.

Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.

What are the key issues?

- The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.
- The importance of trust and independence of government across different markets.
- How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making.
- The importance of technology integration and the issues that need to be addressed for successful implementation
- The degree of reliance on government financial reports as a result of differing approaches to conducting government audits

The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html

The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

Publication 'Reimagine – Local Government'

KPMG have published a number of reports under the headline of *Reimagine – Local Government*. These are summarised below:

Council cash crunch: New approach needed to find fresh income
— By 2020, councils must generate all revenue locally.
— More and more are looking towards diversifying income streams as an integral part of this.
— Councils have significant advantages in becoming a trusted, independent supplier.
— To succeed, they must invest in developing commercial capability and capacity.

Councils can save more than cash by sharing data
— Better data sharing in the public sector can save lives and money.
— The duty to share information can be as important as the duty to protect it.
— Local authorities are yet to realise the full value of their data and are wary of sharing information.
— Cross-sector structures and the right leadership is the first step to combating the problem.

English devolution: Chancellor aims for faster and more radical change
— Experience of Greater Manchester has shown importance of strong leadership.
— Devolution in areas like criminal justice will help address complex social problems.
— Making councils responsible for raising budgets locally shows the radical nature of these changes.
— Cuts to business rates will stiffen the funding challenge, even for the most dynamic councils.

Senior public sector pensions
— Recent changes to pensions taxation have particularly affected the public sector, with fears senior staff may quit as pension allowances bite.
— 'Analyse, control, engage' is the bedrock of an effective strategy.

Time for the *Care Act* to deliver
— Momentum behind last year's *Care Act* risks stalling.
— Councils are struggling to create an accessible care market with well-informed consumers.
— Local authorities must improve digital presence and engage providers.
— Austerity need not be an impediment to progress. It could be an enabler.

The publications can be found on the KPMG website https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html

Business Rates Retention

Level of impact: ● (Medium)	KPMG perspective
The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall. Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved. The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate. The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state. Committee members may wish to be aware that, as a result of these proposals, DCLG has launched two consultations on its proposals for 100% retention of business rates by the local government sector. The first consultation seeks to identify issues that should be kept in mind when designing the reforms; the second is a call for evidence to inform the government's fair funding review of what the needs assessment formula should be following the implementation of 100% business rates retention. Both consultations closed on 26 September 2016. The consultation documents are available for both consultations at www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention	*The Committee may wish to enquire of officers whether their Authority responded to the consultation and the views expressed.*

NAO Report on Capital Expenditure and Resourcing

Level of impact: ● (Low)	KPMG perspective
Committee members may wish to be aware that the National Audit Office has published its report *Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing*. This report found that local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases. The report can be accessed via the NAO website at www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/	*The Committee may wish to seek assurances that the impact for their Authority is understood.*

Appendix 2 - 2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	April 2017	Complete
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements.	July 2017	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	July 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	July 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	October 2017	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	January 2018	TBC

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AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO. 9**
26 APRIL 2017

ANNUAL EXTERNAL AUDIT PLAN 2016/17

1.0 Purpose of Report

1.1 To present the External Audit Plan for the 2016/17 Statement of Accounts work and Value for Money Conclusion.

2.0 Introduction

2.1 The External Audit Plan (**Appendix A**) sets out the proposed work of the Council's external auditors for 2016/17, relating to the audit of the financial statements and the Value for Money conclusion.

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

3.0 RECOMMENDATION

That the Committee notes the External Audit plan.

Background Papers

Nil

For further information please contact Jonathan Gorrie on 0121 2323645

Nicky Lovely
Business Manager & Chief Financial Officer – Financial Services

KPMG

External Audit Plan 2016/2017

Newark and Sherwood District Council

March 2017

Headlines

Financial Statement Audit

There are some, but not major changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority needs to comply with.

Materiality

Materiality for planning purposes has been based on prior year gross expenditure and set at **£800k.**

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£40,000.**

See page 6 for more details.

Significant risks

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

- Significant changes in the pension liability due to LGPS Triennial Valuation;
- Provision for business rate appeals;
- Revenue Recognition; and
- Management override of controls.

Other areas of audit focus

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

- Changes to the format and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, as required by the 2016 CIPFA Code of Practice on Local Authority Accounting.

Other areas of audit focus (cont'd)

- Major capital transactions in the 2016/17 accounts will include the new office, leisure centre and the Southern Link Road. The Authority has received a £2.1m contribution to this and is also holding funding from the Local Enterprise Partnership that will increase reserves in the short term.

See pages 3 to 5 for more details.

Value for Money Arrangements work

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

- Financial resilience.

See pages 7 to 11 for more details.

Logistics

Our team is:

- Jonathan Gorrie – Director
- Helen Brookes – Manager
- Rachit Babbar – Assistant Manager

More details are on **page 14.**

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 13.**

Our fee for the audit is £48,329 (£48,329 2015/2016) see **page 12.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 sent to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

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

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

— *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and

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

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

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

Financial Statements Audit

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

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 7 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2016/17.

Financial statements audit planning

Financial Statements Audit Planning

Our planning work has taken place during January and February 2017. This involved the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

Risk assessment

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

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

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

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

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

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Significant changes in the pension liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme for Nottinghamshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Nottinghamshire County Council, who administer the Pension Fund.

Approach : As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with the Pension Fund Audit team, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of such data.

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Provision for business rate appeals

The provision for business rate appeals is a risk area since the Authority has little control over the level of appeals and it is difficult to anticipate the financial impact of successful appeals as the potential change in rateable value cannot be predicted. Also, there is usually no indication of timescales to settle an appeal, making it hard to measure when the financial impact will fall. We noted in the previous year that there was considerable scope for the Authority to improve the audit trail and the documentation of the judgements made in assessing the provision.

Approach : We will follow up our recommendation from last years audit and review the Authority's approach to estimating its provision for business rate appeals against the requirements of IAS 37 — *Provisions, Contingent Liabilities and Contingent Assets.*

Financial statements audit planning (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Disclosure associated with retrospective restatement of CIES, EFA and MIRS

CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its ‘telling the whole story’ project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how councils are funded and how they use the funding to serve the local population. The outcome of this project has resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (the Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note.

As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts. The new disclosure requirements and the restatement of the accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards.

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year’s accounts, worthy of audit understanding.

Approach: We will liaise with the Authority’s finance team regarding the new requirements and agree the new disclosures, including the restatement of the prior year comparators.

Major capital transactions

Major capital transactions in the 2016/17 accounts will include the new office, leisure centre and the Southern Link Road. The Authority has received a £2.1m contribution to this and is also holding funding from the Local Enterprise Partnership that will increase reserves in the short term.

Approach: We will review the Authority’s treatment of its major capital transactions in the 2016/17 accounts.

Financial statements audit planning (cont.)

Materiality

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

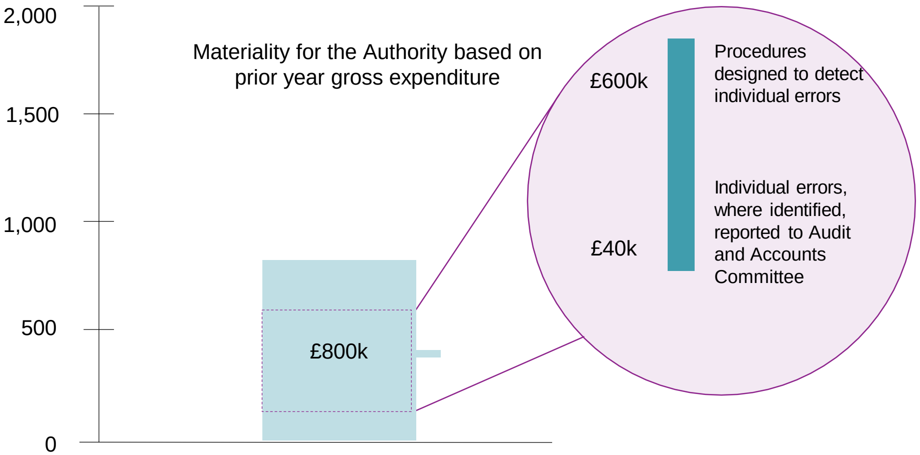
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £800k, which equates to 1 percent of prior year gross expenditure.

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

Reporting to the Audit and Accounts Committee

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



Based on our judgement and current risk assessment of the Authority, we have set materiality at £800k (£700k in 2015-16), which is 1% of total expenditure (1% in 2015-16). We design our procedures to detect individual errors at £600k for the year ending 31 March 2017, and we have some flexibility to adjust this level downwards.

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £40k.

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

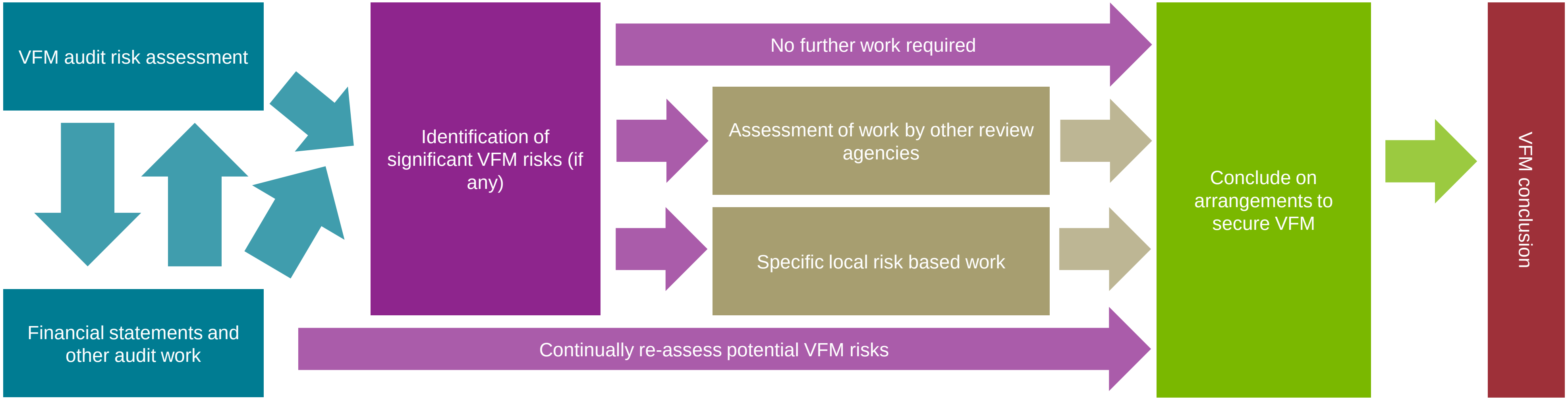
Value for money arrangements work

Background to approach to VFM work

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

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

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.



Value for money arrangements work (cont.)

Overall criterion

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

Informed decision making

Proper arrangements:

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

Sustainable resource deployment

Proper arrangements:

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

Working with partners and third parties

Proper arrangements:

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

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies **and** **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake. The key output from the work will be the VFM conclusion (i.e. our conclusion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont'd)

Significant VFM Risks

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

Financial resilience

The Government's Spending Review in 2015 confirmed its intention to move to a different funding system over the next few years, with less reliance on Revenue Support Grant and an increasing dependence on business rates income. That, together with likely significant reductions in New Homes Bonus funding from 2017/18 means the Authority continues to face financial pressures and uncertainties similar to those experienced by others in the local government sector.

The Authority has been modelling for significant reductions in Government funding in its budget forecasts. The Medium Term Financial Plan shows a balanced budget being achieved over the next four years. However, this is based on a number of assumptions. Sensitivity analysis against these assumptions suggests a need to find savings of £2.6m over the medium term, some of which will be delivered by ongoing projects. The Authority has reviewed its Strategic Priorities and has set out how the measures planned for each of the themes contributes to its Efficiency Plan. The risk for the Authority is that, given the unpredictability in the local government environment and cost pressures, it is not able to develop and deliver its strategy.

Approach

We will review the arrangements in place to manage and deliver financial savings under increasingly difficult circumstances. We will critically assess the Authority's financial standing to ensure that its Medium Term Financial Plan has properly considered the potential funding reductions, and is sufficiently robust to ensure that services are provided effectively. This includes reviewing the core assumptions in the Medium Term Financial Plan, the delivery of the Authority's savings programme and evaluating the arrangements the Authority has in place for identifying further savings for future years.

We will continue to meet regularly with the s151 Officer and key staff to understand the Authority's financial position and assess the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

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

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

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

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

Our audit team

As in the previous year, your audit team will be led by Jonathan Gorrie and Helen Brookes remains as audit manager to ensure continuity from the previous year. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

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

Independence and Objectivity

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

Audit fee

Our Audit Fee Letter 2016/2017 communicated to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage. However, we may need to increase fees if there is additional work due to the issues raised in the plan.

The planned audit fee for 2016/17 is £48,329.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Our audit fee may be varied later, subject to agreement with PSAA, for changes in the Code, specifically this year the changes in relation to the disclosures associated with retrospective restatement of the CIES, EFA and MIRS.

Appendix 1: Key elements of our financial statements audit approach

Communication

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

Audit strategy and plan

Interim report (if required)

ISA 260 (UK&I) Report

Annual Audit Letter

Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov

Audit workflow

Initial planning meetings and risk assessment

Interim audit

Year end audit of financial statements and annual report

Sign audit opinion

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

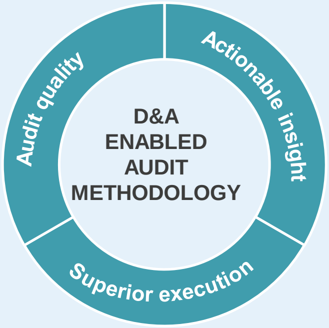
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

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

Completion

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



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

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

We anticipate using data and analytics in our work around key areas such as journals. We also expect to provide insights from our analysis of data in our reporting to add further value from our audit.

Appendix 2: Audit team

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

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

Jonathan Gorrie

Director

0121 232 3645

jonathsan.gorrie@KPMG.co.uk

Name	Helen Brookes
Position	Manager
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with the Director to ensure we add value. I will liaise with the s151 officer and Internal Audit.

Helen Brookes

Manager

0115 945 4476

helen.brookes@KPMG.co.uk

Name	Rachit Babbar
Position	Assistant Manager
	‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

Rachit Babbar

Assistant Manager

0121 232 3118

rachit.babbar2@kpmg.co.uk

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit and Accounts Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of March 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

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 Jon Gorrie, 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.

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO. 10**
26 APRIL 2017

BIENNIAL REVIEW OF THE EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

1.0 Purpose of Report

1.1 To initiate the first biennial review of the effectiveness of the Internal Audit function.

2.0 Background Information

2.1 One of the requirements of the Public Sector Internal Audit Standards (PSIAS) which came into force in 2013 was that an annual review of the effectiveness of the Internal Audit function was carried out based on:

i. an assessment of conformity to the Standards and the Local Government Advisory Note (LGAN);
ii. an assessment of the performance of internal audit work and whether the aims and objectives set out in the Internal Audit Strategy have been achieved;
iii. an assessment of progress with delivery of the annual audit plan.

2.2 A second requirement was that an annual self-assessment of the effectiveness of the Audit & Accounts Committee is also carried out.

2.3 In this context 'internal audit' is not just restricted to the role, activity and effectiveness of the internal audit team; it also applies to the role, activity and effectiveness of the Audit & Accounts Committee itself. Guidance makes it clear that is not the role of the external auditor to undertake this work. It is for the authority itself to complete a review.

2.4 There is no longer a statutory requirement for the Council to carry out the review every year and at its meeting on 10th February 2016, the Audit & Accounts Committee determined that a review should be carried out biennially, with the timing moving to earlier in the year so that the result of the review informs the Annual Governance Statement.

2.3 For the previous review, a working group consisting of the Chairman of the Audit & Accounts Committee, one other member of the Committee and the Business Manager Financial Services was formed, reporting the results to the February 2015 meeting of the Committee.

3.0 Proposals

3.1 Effectiveness of the Internal Audit Function: - It is proposed that the review of the effectiveness of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) is undertaken. This should be carried out in time to inform the Council's Annual Governance Statement. A copy of the PSIAS giving details of the requirements has been provided to members in the past, but can be sent out again if required. The PSIAS have not changed in the last year. The document will be available to the working group. The effectiveness of the Internal Audit function should be assessed against these standards.

3.2 An independent external assessment of Audit Lincs against the Public Sector Internal Audit Standards was carried out by CIPFA in 2016 and this will be used as the basis for the review.

3.3 Self-Assessment of the Audit & Accounts Committee: - The CIPFA publication "Audit Committees – Practical Guidance for Local Authorities" has been sent out to Members in the past, but can be sent out again if required. This document has also not changed in the last year. It includes a self-assessment checklist for Audit Committees. The document and checklist will be available to the working group. It is proposed that the working group complete the CIPFA self-assessment questionnaire to determine the effectiveness of the Audit & Accounts Committee, and consider progress with the action plan produced as a result of the last review.

3.4 It is proposed that the group convened to carry out this work comprises the same make up as before.

3.5 Proposed dates for the working group to carry out the review are:

Wednesday, 10 May – 9.30 am or 2 pm
Thursday, 11 May – 9.30 am
Tuesday, 23 May – 9.30 am or 2pm

4.0 RECOMMENDATIONS that the Audit and Accounts Committee:

a) convene a joint Member/Officer Working Group to undertake the review of effectiveness of internal audit;

b) task the group to undertake a review of the internal audit function against the PSIAS;

c) task the group to carry out a self-assessment of the effectiveness of the Committee using the CIPFA checklist and considering the previous action plan;

d) agree a date for the review to be carried out.

Background Papers

Nil

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

Nicky Lovely
Business Manager & Chief Financial Officer - Financial Services

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO. 11**
26 APRIL 2017

COUNTER-FRAUD ACTIVITIES FROM 1 OCTOBER 2016 TO 31 MARCH 2017

1.0 Purpose of Report

1.1 To inform Members of counter-fraud activity undertaken since the last update reported on 30 November 2016.

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 for investigation. Referral procedures are in place.

3.3 The actual court costs charged to the Council since October 2016 are £9,620. These costs relate to cases of non-payment of Council Tax, as well as to fraud cases. The Revenues and Benefits Business Unit recovers costs from claimants wherever possible.

4.0 Other Counter-Fraud Work

4.1 A fraud risk workshop facilitated by Assurance Lincolnshire was carried out in January 2017, resulting in a refreshed fraud risk register that was reported to Committee in February.

4.2 The Fighting Fraud Locally Strategy has been refreshed to become the Fighting Fraud & Corruption Locally Strategy. Its production and subsequent implementation is overseen by an independent board, which includes representation from key stakeholders. The board commissioned the drafting and publication of the strategy from the CIPFA Counter Fraud Centre. It is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape.

When the next review of the Council's Anti-Fraud Strategy is undertaken in the summer of 2017, the Fighting Fraud & Corruption Locally Strategy will be used to ensure that the Council follows best practice.

4.3 A recent internal audit review of the Council's counter-fraud arrangements has taken place, following up on the recommendations from previous reports and considering work undertaken since those reviews. The report gives a substantial level of assurance.

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.

6.0 Future Counter Fraud Work

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

7.0 Equalities Implications

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

8.0 Impact on Budget/Policy Framework

8.1 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.

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

9.0 Financial Comments

9.1 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.

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

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

10.0 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 Nicky Lovely, Business Manager & Chief Financial Officer - Financial Services on Ext 5317

Nicky Lovely
Business Manager & Chief Financial Officer - Financial Services

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO. 12**
26 APRIL 2017

WORK PLAN

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
8 February 2017 9.30 am	Private meeting with Internal & External Auditors	Lucy Pledge & Jon Gorrie	Ensure that the Committee has the opportunity to ask questions of and raise issues with the auditors, without officers being present
8 February 2017	Draft Treasury Strategy 2017/18	Tara Beesley	Gain assurance that risks in relation to the Council's treasury management activities are to be managed in accordance with need and the Council's risk appetite
	Internal Audit Progress Report 2016/17	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Combined Assurance Report 2016/17	Nicky Lovely	Understand the level of assurance for critical systems, due diligence activities, key risks and projects
	Draft Annual Internal Audit Plan 2017/18	Nicky Lovely	Ensure that an appropriate internal audit plan is in place which will provide assurance on the Council's activities
	External Audit Progress Report 2016/1	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that progress is being made with external audit work
	External Certification of Grant Claims and Returns 2015/16	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that claims and returns have been managed appropriately,
	Risk Management report & Strategic Risk Register	Richard Bates	Gain assurance that appropriate risk management arrangements are in place and that the Council considers its strategic risks and that these are being managed effectively

	Fraud Risk Assessment	Nicky Lovely	Gain assurance that the Council understands its fraud risks and that actions are in place to address them.
	Review of significant internal control issues highlighted in the Annual Governance Statement	Nicky Lovely	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
26 April 2017	Statement of Accounting Policies for 2016/17 accounts	Nicola Pickavance	Gain assurance that the Council has appropriate accounting policies in place that reflect the way items are treated in the annual Statement of Accounts
	IAS19 Pension Assumptions for 2016/17 accounts	Nicola Pickavance	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Setting date for Statement of Accounts training session	Nicola Pickavance	
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	External Audit Plan for 2016/17 accounts	Jonathan Gorrie/Helen Brookes (KPMG)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts, Value for Money arrangements and Grant claims
	Initiating the Biannual Review of the Effectiveness of the Internal Audit Function	Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Audit Committee Work Programme	Nicky Lovely	
TBA May/June 2017	Biannual Review of the Effectiveness of the Internal Audit Function	Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements

TBA June/July 2017	Training session on Statement of Accounts	Nicola Pickavance	Ensure that the Committee has the appropriate skills to be able to review the Council's Statement of Accounts and consider the integrity of financial reporting
26 July 2017	Treasury Management Outturn Report 2016/17	Tara Beesley	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	External Audit Annual Governance Report 2016/17	Jonathan Gorrie/Helen Brookes (KPMG)	To gain assurance that the Council's Statement of Accounts are a true and fair representation of the Council's financial performance for the previous financial year and financial standing as at the Balance Sheet date, and that the Council has effective arrangements for achieving Value for Money
	Statement of Accounts 2016/17 & Annual Governance Statement	Nicky Lovely / Nicola Pickavance	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified, and that arrangements in place support the achievement of the Council's objectives
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Internal Audit Report 2016/17	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Gain assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified and that governance arrangements support the achievement of the Council's objectives

	Results of the Review of the Assessment of Effectiveness of the Internal Audit Function	Nicky Lovely	Gain assurance that the Internal Audit function is operating effectively and that an action plan is in place to address any required improvements
	Proposals for Future Training for the Committee	Nicky Lovely	
	Responses to questions raised at previous meeting:	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
29 November 2017	Treasury Performance half-yearly report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Audit Letter 2016/17	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance on the Council's Statement of Accounts and arrangements for achieving Value for Money
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
TBA	Treasury Management Training Session	Arlingclose Ltd	Ensure that the Committee has the appropriate skills to be able to review the Council's Treasury Management Strategy and performance reports
7 February 2018	Draft Treasury Strategy 2018/19	Tara Beesley	Gain assurance that risks in relation to the Council's treasury management activities are to be managed in accordance with need and the Council's risk appetite
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	External Certification of Grant Claims and Returns 2016/17	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that claims and returns have been managed appropriately,

	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place
	Strategic Risk Register	Richard Bates	Gain assurance that the Council considers its strategic risks and that these are being managed effectively
	Review of significant internal control issues highlighted in the Annual Governance Statement	Nicky Lovely	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	
25 April 2018	Statement of Accounting Policies	Nicola Pickavance	Gain assurance that the Council has appropriate accounting policies in place that reflect the way items are treated in the annual Statement of Accounts
	IAS19 Pension Assumptions	Nicola Pickavance	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Internal Audit Progress Report 2017/18	Lucy Pledge/John Sketchley (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Combined Assurance Report	Nicky Lovely	Understand the level of assurance for critical systems, due diligence activities, key risks and projects
	Draft Annual Internal Audit Plan 2018/19	Nicky Lovely	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	External Audit Certification of Grant Claims and Returns 2017/18	Jonathan Gorrie/Helen Brookes (KPMG)	Gain assurance that claims and returns have been managed appropriately
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	Nicky Lovely	