



Meeting **AUDIT AND GOVERNANCE COMMITTEE**
 Time/Day/Date 6.30 pm on Wednesday, 20 March 2019
 Location Council Chamber, Council Offices, Coalville
 Officer to contact Democratic Services (01530 454512)

AGENDA

Item	Pages
1. APOLOGIES FOR ABSENCE	
2. DECLARATION OF INTERESTS	
Under the Code of Conduct members are reminded that in declaring disclosable interests you should make clear the nature of that interest and whether it is pecuniary or non-pecuniary.	
3. MINUTES	
To confirm and sign the minutes of the meeting held on 5 December 2018	3 - 6
4. ANNUAL AUDIT LETTER	
Report of the Head of Finance	7 - 18
5. EXTERNAL AUDIT RECOMMENDATIONS PROGRESS REPORT	
Report of the Head of Finance	19 - 30
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Report of the Audit Manager	55 - 76
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Report of the Audit Manager	77 - 84
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Report of Head of Finance	85 - 92

10.	PROGRESS UPDATE IN RESPECT OF IMPROVEMENTS IDENTIFIED THROUGH THE ANNUAL REVIEW OF GOVERNANCE 2017/18	
	Report of the Head of Finance	93 - 100
11.	2018/19 MATERIALITY LEVEL AND ACCOUNTING POLICIES	
	Report of the Head of Finance	101 - 124
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13.	TREASURY MANAGEMENT ACTIVITY REPORT APRIL 2018 TO FEBRUARY 2019	
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14.	CORPORATE RISK UPDATE	
	Report of the Strategic Director of Housing and Customer Services	149 - 156
15.	DRAFT MEMBER CONDUCT ANNUAL REPORT	
	Report of the Head of Legal and Commercial Services	157 - 164

Circulation:

Councillor R Ashman
 Councillor J Clarke
 Councillor J Cotterill
 Councillor D Harrison (Deputy Chairman)
 Councillor G Houlton
 Councillor G Jones
 Councillor S McKendrick
 Councillor V Richichi (Chairman)
 Councillor S Sheahan
 Vacancy

MINUTES of a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the Council Chamber, Council Offices, Coalville on WEDNESDAY, 5 DECEMBER 2018

Present: Councillor V Richichi (Chairman)

Councillors R Ashman, J Cotterill, D Harrison, G Hault, S McKendrick and S Sheahan

Officers: Mrs T Bingham, Mrs L Marron, Mrs R Wallace, Miss E Warhurst and Miss A Wright

25. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors J Clarke and G Jones.

26. DECLARATION OF INTERESTS

There were no declarations of interest.

27. MINUTES

Consideration was given to the minutes of the meeting held on 10 October 2018.

By affirmation of the meeting it was

RESOLVED THAT:

The minutes of the meeting held on 10 October 2018 be approved as a correct record and signed by the Chairman.

28. INTERNAL AUDIT PROGRESS REPORT

The Audit Manager presented the report to Members highlighting that one report had been issued for management review and two that were at the drafting stages. She also reported that three reviews were in progress and two were at engagement planning stage. Members were informed that due to the gap in having an Audit Manager in post between 1 and 31 October no final reports had been issued. It was noted that the internal audit performance position was below target but it should improve by the end of quarter three.

Regarding the outstanding recommendation for the review of the policy framework at page 17 of the report, the Head of Finance updated Members that attempts had been made to contact Leicestershire City Council Fraud Hub to carry out this piece of work but unfortunately, a response had not been received. If confirmation had not been received by the end of the week, then alternative third party support would be sought to complete the work.

In response to a question from Councillor V Richichi, the Head of Finance explained that Leicester City Council formed a Fraud Investigation Hub to undertake work of this nature for the East Midlands and we shared information with them if required.

Regarding the outstanding Section 106 agreements recommendation, Councillor D Harrison raised concerns that it was still ongoing and had a high rating. He asked for the total amount of Section 106 money currently held by the authority and how many individual agreements there were. The Head of Finance reminded Members that the information had been included in the report brought to the previous meeting; she would provide the information to Councillor D Harrison outside of the meeting.

Regarding affordable housing allocations as part of a planning application, Councillor S McKendrick asked if the commuted allocations that were provided at alternative locations

were audited. The Audit Manager explained that this area was outside the scope of the recent audit, however plans were being made for 2019/20 audits and this would be discussed further with officers.

By affirmation of the meeting it was

RESOLVED THAT:

The report ne noted.

29. TREASURY MANAGEMENT ACTIVITY REPORT

The Finance Team Manager presented the report to Members, drawing attention to the Council's current treasury position, borrowing activity, debt rescheduling activity and investment activity.

In response to a question from Councillor D Harrison, the Head of Finance confirmed that Section 106 money was invested to receive interest whilst it was being held by the authority, before being released to the recipient. If the money was not utilised and was given back to the developer, then they would also receive the accrued interest. Councillor D Harrison asked if the recipients were aware of the process to invest the money and whether it was included in any agreements with them. The Head of Finance agreed to check the details of the agreements and confirm this to Councillor D Harrison outside of the meeting.

Councillor S Sheahan referred to the amount of investments made in other Local Authorities and raised concerns regarding the level of security of the funds. The Head of Finance referred Members to the previous meeting where these concerns were also raised. She reiterated that the advice given in this area was that this type of investment was deemed the most secure as legal processes meant that the money was always safeguarded. She understood Councillor S Sheahan's concerns of over exposure but assured Members that the money invested was secure. She added that these investments were only short term and that due to the funds required for the new leisure facility, future budgets may not include these investments.

Councillor R Ashman believed that the reason investments were made in other Local Authorities was that there was public scrutiny of finances compared to other companies. Section 114 notices were issued when Local Authorities were becoming financially unstable which would protect our funds. The Head of Finance agreed that this was the case and the Section 114 notices were effectively warning signs and therefore any investments would be safeguarded.

In response to a question from Councillor V Richichi, the Head of Finance reported that it was agreed by Council to borrow approximately 7.5 million towards the funding of the new leisure facility. However, the process was currently in the final bidding stages with the possible service providers and therefore a final figure would be available soon. She confirmed that the authority could afford to borrow the funds required for the project.

By affirmation of the meeting it was

RESOLVED THAT:

The report be approved.

30. ANNUAL GOVERNANCE STATEMENT IMPROVEMENTS

The Head of Finance presented the report to Members, highlighting the 14 improvements areas identified through the review, of which, three were complete, eight were underway and the remaining three were yet to be started.

In response to a question from Councillor V Richichi, the Head of Finance stated that the framework did change over the years and this was why an annual review was undertaken. She was confident that the 14 improvement areas could be resolved and that the governance rating would move to 'good'.

By affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

31. CORPORATE RISK UPDATE

The Head of Finance presented the report, updating Members that there had been no changes to the risk ratings or movement of risk since the last meeting. She drew attention to the newest risks at 12 and 13 on the register, which were likely to see some movement. They would be reviewed by the Risk Scrutiny Group in due course and reported back to the Committee.

Councillor D Harrison asked if officers would consider how the register document was presented to Members, as it was very small print and difficult to read. The Head of Finance agreed to take the comment back to the Strategic Director of Housing and Customer Services.

In response to a question from Councillor S McKendrick, the Head of Finance explained that all new staff members followed an induction, which included training on fraud. The issue of continuity in this training with regular updates is something the authority needs to be mindful of. She added that the People Plan was being considered by Cabinet, which ring fenced funds towards training of staff. The Head of Legal and Commercial Services agreed to have a discussion with the Head of Human Resources and Organisational Development regarding linking the People Plan to the Corporate Risk Register.

By affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

32. CIPFA'S PRACTICAL GUIDE FOR LOCAL AUTHORITIES AND POLICE (2018 EDITION) - SELF-ASSESSMENT OUTCOME REPORT

The Head of Legal and Commercial Services presented the report, requesting Members to agree the action plan and recommend to Council the revised terms of reference for the Audit and Governance Committee.

It was moved by Councillor S Sheahan, seconded by Councillor J Cotterill and

RESOLVED THAT:

- a) The work of the working group be noted

b) The action plan be approved.

RECOMMENDED THAT:

Council approve the revised terms of reference for the Audit and Governance Committee at its meeting on 26 February 2019.

33. STANDARDS AND ETHICS - QUARTER 2 REPORT

The Head of Legal and Commercial Services presented the report Members.

By affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

34. COMMITTEE WORK PLAN

Councillor D Harrison referred to a discussion had at a previous meeting where it was decided to invite the relevant Director to the meeting to explain why the service was not completing the recommendations on time. He asked for an update. The Head of Legal and Commercial Services believed that the discussion was around Section 106 Agreements and that was the reason the Planning Policy Team Leader attended the last meeting, which unfortunately Councillor D Harrison did not attend.

It was moved by Councillor S Sheahan, seconded by Councillor G Hoult and

RESOLVED THAT:

The committee work plan be noted.

The meeting commenced at 6.30 pm

The Chairman closed the meeting at 7.13 pm

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	ANNUAL AUDIT LETTER
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance and Section 151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk</p>
Purpose of report	To report the receipt of the Annual Audit Letter.
Council priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	Not required.
Equalities Impact Screening	Not required.
Human Rights	None identified.
Transformational Government	Not applicable.
Consultees	None
Background papers	None
Recommendations	THAT THE 2017/18 ANNUAL AUDIT LETTER BE NOTED

1.0 BACKGROUND

- 1.1 Our External Auditor, KPMG, was responsible for the external audit of the Council's financial statements and Value for Money arrangements for 2017/18.

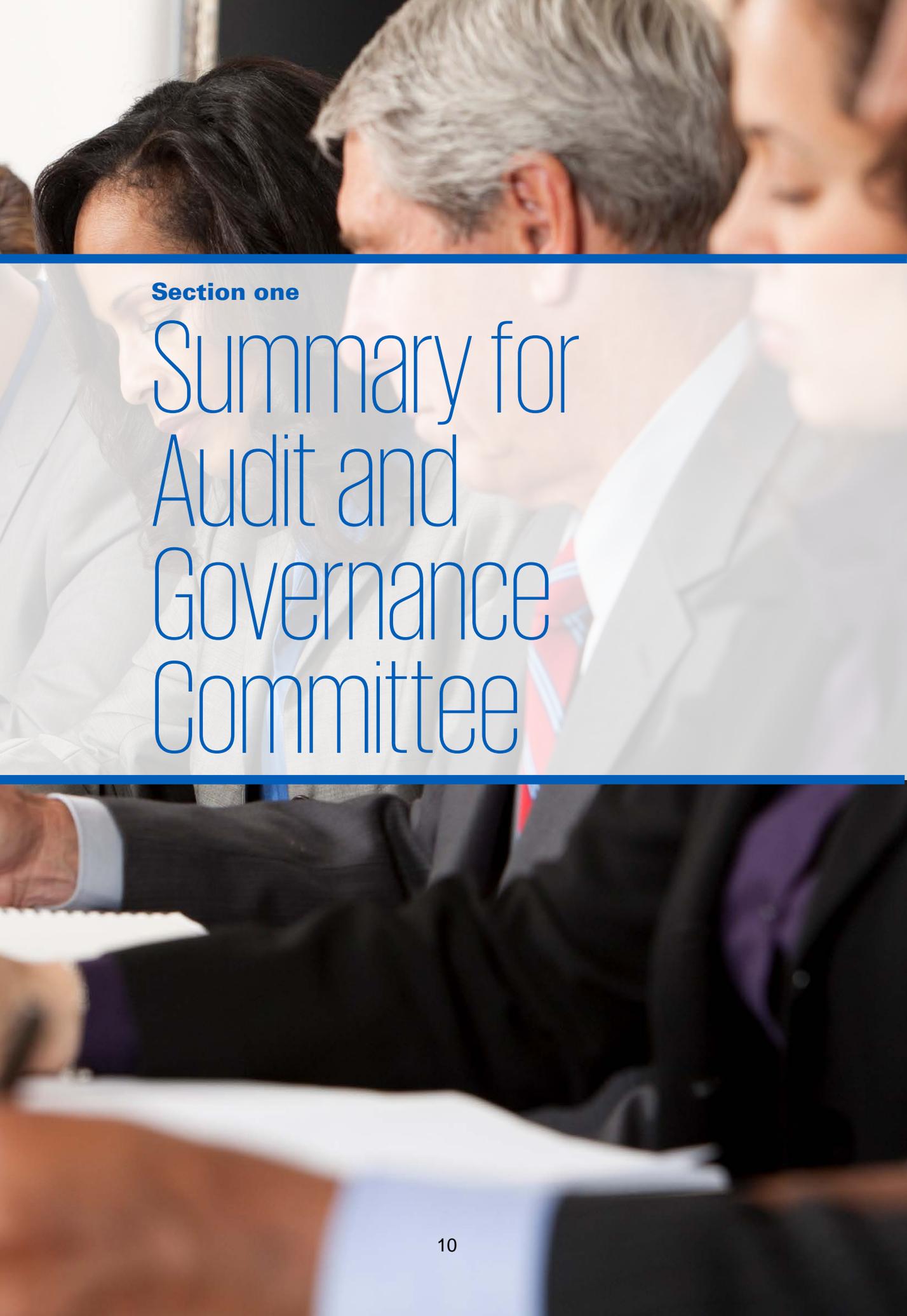
- 1.2 The External Auditor has already reported the findings of the audit and issued an unqualified audit opinion on the 2017/18 Financial Statements and confirmed that the Council's arrangements for providing Value for Money are satisfactory.
- 1.3 KPMG have provided the Annual Audit letter for consideration by the Committee. The letter provides a summary of the audit work undertaken for the 2017/18 year.
- 1.4 The report also details the fees for undertaking the annual audit for 2017/18 which was £56,522 against the planned fee of £50,522. The additional costs totalling £6,000 were incurred as a result of the need to carry out additional work over the new payroll system and capital accounting 2017/18, which was outside the scope of the normal audit process.
- 1.5 The Annual Audit Letter is contained within Appendix A.

Annual Audit Letter 2017/18

North West
Leicestershire District
Council

January 2019



A group of business professionals in a meeting, looking at documents. The image is a close-up, slightly blurred, showing several people in business attire. A woman with dark hair is on the left, looking down. A man with grey hair is in the center, also looking down. Another woman is on the right, partially visible. They appear to be in a meeting or conference room, looking at documents or a screen. The overall tone is professional and focused.

Section one

Summary for Audit and Governance Committee

Summary for Audit and Governance Committee

This Annual Audit Letter summarises the outcome from our audit work at North West Leicestershire District Council ("the Authority") in relation to the 2017-18 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

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

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 9 November 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £0.9 million which equates to around 1.5% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Audit and Governance Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £45k.

We identified material misstatements of £1.8m including prior period adjustments of £7.3m 2016/17, £2m 2015/16 relating to the incorrect accounting treatment of revaluation of fixed assets. The Authority has corrected for these misstatements in the 2017/18 financial statements. The correction of these errors does not impact on the General Fund and Housing Revenue Account balances as at 31 March 2018, due to the way the revaluation accounting is completed under the CIPFA Code of Practice.

We found some quality issues in relation to the working papers provided in 2017/18. As recommended in previous years there is an opportunity for improvements to be made in providing clear and concise management trails of underlying transactions.

We thank the Finance team for their co-operation throughout the visit.

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

- **Valuation of PPE** – The Authority operates a cyclical revaluation approach, which sees all land and buildings physically revalued every five years, with interim desktop revaluation completed between each physical revaluation. The Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code') requires that all land and buildings be held at fair value. In addition the Authority has had a number of amendments in this area of the financial statements in the previous four years. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated. We also reviewed the instructions and source of the information provided to, and used by, the valuer to inform the Authority's valuation. As highlighted above we identified material misstatements relating to the incorrect accounting treatment of revaluation of fixed assets, which the Authority have corrected.

Summary for Audit and Governance Committee (cont.)

- **Pensions Liabilities** – The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the process that the Authority has in place over the information sent directly to the Pension Fund and reviewed management assessment of assumptions used in the valuation report and financial statements. We did not identify any evidence of material misstatement as a result of our audit work on this significant risk.
- **Management Override of Controls** – Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit.

Other information accompanying the financial statements

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

Whole of Government Accounts

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

Value for Money conclusion

We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2017-18 on 9 November 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

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

- **Medium Term Financial Planning** – The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector, such as the future of business rate distribution. For 2017/18, the Authority has a balanced budget, but the Medium Term Financial Strategy (MTFS) 2018-2023 identifies funding gap on the general fund of £5.3m between 2019/20 and 2022/23 as a result of increasing cost pressures and reduction in Revenue Support Grant, and from 2020/21 due to a significant forecast reduction in retained business rate income. The Authority is planning to introduce a value-driven target (Self-Sufficiency target) based on 6.25% of the value of New Homes Bonus currently used to provide core services each year from 2019/20 –2022/23. These targets, added to the predicted deficits, increase the savings targets to £6.8m. However, the on-going reliance on New Homes Bonus for core activity is itself a concern, and we note that there is no proposed increase in Council Tax. We reviewed the arrangements the Authority has in place to ensure financial resilience.

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

Section one:

Summary for Audit and Governance Committee (cont.)

High priority recommendations

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

Certificate

We issued our certificate on 11 January 2019. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our fee for 2017/18 was £56,522, excluding VAT (2017: £51,869). We needed to carry out additional work over the new payroll system and capital accounting in 2017/18, which was outside of the normal audit process. Further detail is contained in Appendix 2.

Exercising of audit powers

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

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

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



Appendices



Appendix 1:

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit and Governance Committee pages on the Authority's website.

Certification of Grants and Returns

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

External Audit Plan

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

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

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

Annual Audit Letter

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

2018

January

February

March

April

May

June

July

August

September

October

November

December

January

2019

Appendix 2:

Audit fees

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

External audit

Our proposed final fee for the 2017/18 audit of the Authority is £56,522. This compares to the scale fee of £50,522 (£51,869 2016/17). The reasons for this variance from the scale fee is:

- Additional work completed over the new payroll system; and
- Additional work completed over accounting treatment of revaluation of fixed assets.

Our fees in relation to above are still subject to final determination by Public Sector Audit Appointments.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. The planned fee for this work is £9,128 and the final fee will be confirmed through our reporting on the outcome of that work.

We also charged £3,500 for certification work in regards to 2016/17 Pooling of Capital Receipts Return, which is outside of Public Sector Audit Appointment's certification regime.

All fees quoted are exclusive of VAT.



The key contact in relation to our audit is:

Sundeep Gill
Manager

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E: Sundeep.Gill@kpmg.co.uk

kpmg.com/uk



This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psa.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 Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	EXTERNAL AUDIT RECOMMENDATIONS PROGRESS REPORT
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance and Section 151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk</p>
Purpose of report	To approve the External Audit Plan for 2017/18
Council priorities	Value for Money
Implications:	
Financial/Staff	Implementation of recommendations made by the External Auditor in respect of the audit of the 2017/18 accounts is being undertaken utilising existing resources.
Link to relevant CAT	None
Risk Management	Implementing recommendations made by the external auditor in a timely manner mitigates risk.
Equalities Impact Screening	Not applicable
Human Rights	No direct implications.
Transformational Government	No direct implications.
Consultees	None
Background papers	None
Recommendations	THAT MEMBERS NOTE THE PROGRESS MADE

1.0 BACKGROUND

- 1.1 At its meeting on 10 October 2018 the Committee approved the annual statement of accounts and received the external auditors (KPMG LLP) ISA260 report containing the auditors intended audit opinion, findings, key issues and recommendations. The ISA260 report also included the council's managerial response to recommendations. In presenting the management responses, the Head of Finance committed to updating members towards the end of the financial year in respect of progress against these recommendations.
- 1.2 The audit process for the 2017/18 accounts has now concluded. KPMG LLP issued their audit certificate on 11 January 2019 and the associated Annual Audit Letter is presented to the committee this evening, as part of a separate report, for information.
- 1.3 A total of five recommendations were made by the external auditors in respect of 2017/18. At the time of issuance of the ISA 260 report, the council had fully implemented one of the five recommendations relating to the 2016/17 audit of accounts, with one recommendation superseded.
- 1.4 The table at Appendix A details the recommendations and management responses as laid out in the ISA 260 report along with a progress update as at February 2019.

Progress against external audit findings and recommendations of the 2017/18 Annual Accounts

ISA 260 Report 2017/18 – Key Issues & Recommendations

Priority Rating	Risk	Issue & Recommendation	Management Response	Update
1	2	<p>BACS Authorisation</p> <p>Our audit work identified a lack of evidence to confirm that one BACS payment had been authorised out of our sample of five.</p> <p>Risk</p> <p>There is a risk that BACS payments are made without appropriate authorisation.</p> <p>Recommendation</p> <p>The Authority should ensure evidence is retained for all BACS payment transactions.</p>	<p>Internal testing with regard to this issue has identified that the unauthorised payment was an anomaly.</p> <p>A revised authorisation process for signing off payments was implemented in June 2018 to mitigate any further occurrence of this issue. Responsible Officer Head of Finance and Section 151 Officer Implementation Deadline Implemented June 2018.</p>	No further update – recommendation implemented June 2018.
2	2	<p>Payroll and capital system password configuration</p> <p>The payroll and capital applications are not currently configured to enforce strong password security requirements. This is despite the fact that capital, and certain payroll system users, access the applications through a web-based interface that can be accessed externally.</p> <p>Risk</p> <p>There is an increased the risk of inappropriate access to, or amendment of, Authority data.</p>	<p>Reconfiguration to enforce stronger password security requirements on the payroll and capital systems will be undertaken and implemented by November 2018.</p> <p>Responsible Officer</p> <p>HR Analyst (Payroll system) Finance Team Manager and Deputy Section 151 Officer (Capital system).</p> <p>Implementation Deadline November 2018</p>	<p>Implemented.</p> <p>Both the capital and payroll applications have been reconfigured to enforce stronger password security.</p>

		<p>Recommendation The payroll and capital applications should be configured to enforce stronger password security requirements.</p>		
3	2	<p>Reliance on third party software The Authority operates a number of software packages that are hosted by an external third party, including payroll and capital systems. Management were unable to provide adequate assurances in support of our audit in relation to the controls operated by the third party service organisations.</p> <p>Risk Without adequate oversight of the controls operated by third party outsourcers, insufficient controls may be in operation to ensure the ongoing protection of the confidentiality, availability and integrity of the Authority data stored within these systems.</p> <p>Recommendation We recommend that the Authority takes steps to gain assurance over the controls operated by third party outsourcers, for example through obtaining and inspecting an appropriate report for the service provided.</p>	<p>As a further security measure, the Council has closely scrutinised and reconciled its payroll and capital data processes for 2017/18 and can confirm that there have been no issues.</p> <p>All new 3rd party externally hosted software procurement includes a security element and requirement from the supplier, including a yearly PEN (Penetration test) and controls operated report. This is written into the procurement ITT. The report is sent to the IT department Security Officer and IT Manager to ensure compliance and any vulnerability issues classified as high or critical are reviewed and resolved.</p> <p>A review to test the validity of this will be undertaken by March 2019.</p> <p>For historic hosted systems, predating this approach, where there are not existing controls in place to follow up on the controls operated by the vendor or PEN testing to</p>	<p>Implemented.</p> <p>All existing 3rd party hosted software suppliers have sent through their latest PEN (penetration) test results. These have been reviewed by the IT Manager and all are compliant to best practice. The security summary reports for each supplier are available on request. Some suppliers had to be chased several times in order to obtain the details. All suppliers have been told that the IT Manager will be requesting PEN (penetration) test results for review on a yearly basis in a timely manner.</p> <p>The ICT Team plan for 2019 and going forwards has a BAU task, to review all 3rd party hosted, PEN test results and 3rd party access controls on a yearly basis to ensure any high and critical risks in 3rd party software is made visible to the business and is remediated. The ICT monthly performance report will be updated to reflect the review period.</p> <p>All new 3rd party externally hosted software procurement includes a security and 3rd party access control element and requirement from the supplier, including a yearly PEN</p>

			<p>ensure compliance, IT Team Manager will ensure that there is a yearly control audit and PEN test conducted. The report is forwarded to the service area product owner and IT Manager for review and action.</p> <p>Responsible Officer IT Team Manager Implementation Deadline March 2019</p>	<p>(penetration test), 3rd party controls report. This is written into the procurement ITT, where ICT systems are involved. The report is sent to the IT department, Security officer and IT Manager to ensure compliance and any vulnerability issues classified as high or critical are reviewed and resolved. For example the new housing system customer portal, PEN test results were reviewed recently and captured as part of the Housing ICT system, project governance process.</p> <p>This process is being enhanced further by providing an “ICT Technical Requirements” document to the Procurement team, which can be included in procurement activities where ICT systems are involved. This allows the procurement process to capture all the standard ICT technical and operations requirements, including, 3rd party hosting requirements, 3rd party access controls and Security requirements, as a standard offering. This document is currently being revised and will be finalised on the 7th March 2019. A copy of this is available upon request.</p>
4	3	<p>Review of the appropriateness of user access</p> <p>The Authority does not currently undertake a periodic review to assess the ongoing appropriateness of user access for the payroll and ledger</p>	<p>Improvements have been made to the system access review process for the ledger application following last year’s recommendation. However, further improvements in respect of the timeliness of the reviews have been</p>	<p>Implemented.</p> <p>HR process implemented to review user access levels on a quarterly basis.</p> <p>As part of this review, checks will be undertaken on administrator,</p>

		<p>applications.</p> <p>Risk</p> <p>This increases the risk that users may retain access that is no longer required to support their job role.</p> <p>Recommendation</p> <p>We recommend that a periodic exercise is undertaken to review the appropriateness of user access to payroll and ledger systems. The exercise should include consideration of the ongoing appropriateness of access rights, with a record retained that includes details of any changes made</p>	<p>acknowledged and a new process was implemented in July 2018 which allows for timely access modification/revocation based on centralised communication of staffing changes. A further quarterly review has been implemented with immediate effect to ensure appropriate user access.</p> <p>Similarly this improvement has been acknowledged in respect of the payroll system and a quarterly review will be implemented with immediate effect.</p> <p>Responsible Officer</p> <p>Exchequer Services Team Leader (Ledger system) HR Analyst (Payroll system)</p> <p>Implementation</p> <p>Deadline</p> <p>Implemented (Ledger system) .Immediate effect (Payroll system)</p>	<p>accountant, HR, payroll and audit roles only. Employee self-serve or PeopleManager access will be reviewed periodically as access to these systems automatically change if the user leaves or transfer into another role.</p>
5	3	<p>Revocation of user access within ledger system</p> <p>Our testing of user access controls within the ledger system identified a number of cases where a leaver's access was not revoked in a timely manner.</p>	<p>Improvements have been made to the system access review process for the ledger application following last year's recommendation. However, further improvements in respect of</p>	<p>No further update – implemented July 2018.</p> <p>Quarterly reviews will be undertaken by the Exchequer Services Team Leader to ensure that all access is appropriate for all users. A quarterly</p>

		<p>Risk</p> <p>There is an increased the risk of inappropriate access to Authority data.</p> <p>Recommendation</p> <p>We recommend that the Authority reviews the effectiveness of existing processes to revoke access to ledger system from organisational leavers.</p>	<p>the timeliness of the reviews have been acknowledged and a new process was implemented in July 2018 which allows for timely access modification/revocation based on centralised communication of staffing changes.</p> <p>A further quarterly review has been implemented with immediate effect to ensure user access is revoked as necessary.</p> <p>Responsible Officer Exchequer Services Team Leader</p> <p>Implementation Deadline Implemented in July 2018</p>	<p>action has been included within the Finance Team Business for 2019/20.</p>
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ISA 260 Report 2017/18 – Follow-up of Prior Year Recommendations

Priority Rating	Risk	Issue & Recommendation	Management's Original Response	Status as at October 2018	Update
1	2	<p>Users on ledger system</p> <p>Our testing identified that nine leavers had not been removed from the ledger system in a timely manner and a regular review of user accounts is not undertaken and documented.</p> <p>Recommendation</p> <p>The Authority should remove leavers from the</p>	<p>Accepted</p> <p>When an employee leaves the authority their user account is deactivated so although their account may still be live on the ledger system, their ability to access the system is removed. We receive information from ICT regarding employees that leave the Authority. The timeliness and</p>	<p>Superseded</p>	<p>No further update – this recommendation was supersede with recommendation number 5 included in 2018/19 above.</p>

		<p>ledger system in a timely manner. Additionally, the Authority should perform review of user accounts on a regular basis to ensure that user access remains appropriate.</p>	<p>completeness of this information will be strengthened and leavers promptly deactivated from the system as a result. We will implement a documented quarterly review of user accounts moving forward.</p>		
2	2	<p>Review of actuarial assumptions</p> <p>The Authority performs a review of the assumptions used by the actuaries upon receipt of their report, but this is not documented.</p> <p>Recommendation</p> <p>The Authority should document its review of the actuarial assumptions. This may include reporting to the Audit and Governance Committee for approval by members as happens at a number of authorities.</p>	<p>Accepted</p> <p>The Actuary's report is reviewed by the Finance Section, but not documented. In future this will be documented and presented to the Auditors as part of the working papers.</p>	<p>Implemented</p> <p>KPMG assessment</p> <p>The review of assumptions have been documented.</p>	<p>No further update (recommendation was implemented).</p>
3	2	<p>Unreconciled Cash Flow Statement</p> <p>Our testing identified that the Cash Flow Statement did not</p>	<p>Accepted</p> <p>Consideration will be given to the method and tools used in producing the Cash</p>	<p>Partially Implemented</p> <p>KPMG assessment</p> <p>Our testing</p>	<p>In Progress.</p> <p>Ongoing work is continuing to identify the unreconciled balance.</p>

		<p>reconcile by £0.161m due to uncertainty. Whilst this unreconciled balance has reduced from £0.558m that was included within the 2015/16 financial statements, further review of the Cash Flow Statement is required to eliminate the unreconciled balance.</p> <p>Recommendation The Authority should review the Cash Flow Statement in detail to resolve the unreconciled balance. This may including using CIPFA's Cash Flow Model.</p>	<p>Flow Statement for future years with a view to reconcile all balances.</p>	<p>identified that the Cash Flow Statement did not reconcile by £0.038m due to uncertainty.</p> <p>Management October 2018 response Significant progress was made during 2017/18 to identify and eliminate the historic unreconciled balance. Whilst the remaining unreconciled balance value remains below the current external auditor's triviality level, it is acknowledged that this is not an ideal position. A further review, led by the Finance Team Manager and Deputy Section 151 Officer, will be undertaken to seek to resolve the unreconciled balance as part of the development of the 2018/19 draft Statement of Accounts.</p>	<p>The team are currently considering the benefits of implementing the CIPFA Cashflow model for the 2018/19 financial statements which will help to eliminate any unreconciled balances in the future.</p>
4	2	<p>Documentation of management review of valuation assumptions</p> <p>Property assets are revalued on an annual basis by a professional valuer in accordance with the CIPFA Code. Officers review the</p>	<p>Accepted</p> <p>In future, the annual officer's review of valuation assumptions will be documented.</p>	<p>Not implemented</p> <p>KPMG assessment</p> <p>The review of assumptions have not been documented.</p>	<p>Not yet started - The valuation of council owned assets is due to take place in March and plans are in place for the Technical Accountant to document the review of these assumptions in a report to the Head of Finance who will then document further</p>

		<p>assumptions related to the estimation processes followed by the appointed valuers. However this review is not documented and as such could not be re-performed.</p> <p>Recommendation The Authority should document its review of these assumptions to strengthen the control process.</p>		<p>Management October 2018 response Whilst significant analysis work was undertaken in validation of the assumptions used by the valuer in arriving at a valuation of the council's property asset's for 2017/18, this process was not documented. In undertaking this process for the drafting of the 2018/19 Statement of Accounts the Head of Finance and Section 151 Officer will request formal sign off of the review of valuation assumptions which are to be documented by the Technical Accountant.</p>	<p>review, challenge and conclusion.</p>
5	3	<p>Properties, Property, Plant and Equipment Processing There were a number of errors in the notes for Investment Properties, Property, Plant and Equipment (PPE), Capital Adjustment Account and Revaluation Reserves, which resulted in audit adjustments.</p> <p>Recommendation</p>	<p>Accepted A full and thorough review in relation to capital items will be undertaken in readiness of the production of the 2017/18 financial statements.</p>	<p>Partially Implemented KPMG assessment The Authority has undertaken a review of Council Dwelling capital accounting in 2017/18.</p> <p>Management October 2018 response Whilst significant progress has been made to the accounting treatment of PPE, it</p>	<p>In Progress - Work to migrate HRA property data onto the council's capital system commenced in January 2019. Issues with the balance of unusable reserves have been identified which are largely a result of the system working on a property approach accounting basis as opposed to a beacon approach. Additional technical accounting support is</p>

		<p>The Authority gives priority to reviewing the compilation of these notes.</p>		<p>is acknowledged that the current manual spreadsheet compilation of the Housing Revenue Account (HRA) property statements and supporting notes are laborious and susceptible to human error.</p> <p>Improvements will be implemented prior to the development of the 2018/19 draft Statement of Accounts to migrate the HRA property data onto the council's capital system. In addition, improvements in respect of the data sharing mechanisms between the Housing and Finance service will be strengthened. The Finance Team Manager and Deputy Section 151 Officer will take responsibility for this.</p> <p>As detailed below, a review of the approach to compiling working papers will be</p>	<p>currently being sought and the Head of Finance and Finance Team Manager are working closely with the council's auditors to ensure that any material errors are understood and presented as part of the draft statements in May 2019.</p>
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				undertaken by March 2019, prior to the drafting and audit of the 2018/19 Statement of Accounts	
6	3	<p>Working paper</p> <p>The supporting working papers to the accounts were of an adequate standard, although could be more clearly presented to avoid additional queries being raised.</p> <p>Recommendation</p> <p>The Authority should improve working papers to ensure they are clearly presented to support the figures in the financial statements.</p>	<p>Accepted</p> <p>We will review our working papers with auditors and take any specific comments on board..</p>	<p>Partially Implemented KPMG assessment</p> <p>We have seen some improvement to working papers provided from prior year, but there is still scope for further improvement.</p> <p>Management October 2018 response</p> <p>Whilst some improvement has been made to working papers, a review of the approach to the compilation of these working papers will be undertaken by March 2019, prior to the drafting and audit of the 2018/19 Statement of Accounts. The review and subsequent implementation will be led by the Finance Team Manager and Deputy Section 151 Officer.</p>	<p>In Progress</p> <p>A review of previous year's working papers has been undertaken by the Finance Team Manager and a number of improvements have been identified. These will be implemented as part of the 2018/19 closedown process.</p>

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – 20 MARCH 2019**

Title of report	EXTERNAL AUDIT PLAN
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance and Section 151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk</p>
Purpose of report	To approve the External Audit Plan
Council Priorities	Value for Money
Implications:	
Financial/Staff	The report outlines the fees that the Council will be charged in 2019/20 which are budgeted for.
Link to relevant CAT	None
Risk Management	The External Audit is an essential part of the Council's arrangements for compliance with laws and regulations, as well as maintaining good Value for Money.
Equalities Impact Screening	Not applicable
Human Rights	No direct implications.
Transformational Government	No direct implications.
Consultees	None
Background papers	None
Recommendations	THAT THE COMMITTEE NOTE THE EXTERNAL AUDIT PLAN FOR 2018/19

1.0 BACKGROUND

- 1.1 Mazars LLP were appointed to audit the accounts of the Council for five years, for the accounts from 2018/19 to 2022/23. The appointment was made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and was approved by the Public Sector Audit Appointments Limited (PSAA Ltd) Board in December 2017. PSAA Ltd are a company incorporated by the Local Government Association to manage an opt-in scheme for public bodies in appointing auditors, setting scales of fees and ensuring effective management of contracts with audit firms for the delivery of external audit services.
- 1.2 Mazars LLP have provided the Audit Strategy Memorandum for the forthcoming audit of the Council's accounts, as attached at Appendix A. A representative from Mazars will be in attendance at the meeting to present their plan to the committee.
- 1.3 The Audit Strategy Memorandum focuses around two key objectives: the financial statements – providing an opinion on the accounts, including the Annual Governance Statement and narrative report; and use of resources – a conclusion on the arrangements in place for securing economy, efficiency and effectiveness. Audit focus around specific financial statement and value for money risks are detailed within the Audit Plan.
- 1.4 The fees for undertaking the 2018/19 audit work (as detailed on page 15 of the Audit Strategy Memorandum) is £38,902, compared to the fees for 2017/18 which were £50,522.

Draft Audit Strategy Memorandum

North West Leicestershire District Council

Year ending 31 March 2019





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1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Audit risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Mazars' client service commitment

This document is to be regarded as confidential to North West Leicestershire District Council. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit and Governance Committee Members
North West Leicestershire District Council
Council Offices
Whitwick Road
Coalville
Leicestershire
LE67 3FJ

February 2018

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for North West Leicestershire District Council for the year ending 31 March 2019

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing North West Leicestershire District Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07875 974 291.

Yours faithfully

Mark Surridge
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of North West Leicestershire District Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>.

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit and Governance Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



Mark Surridge
Director and Engagement Lead

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Tel: 07875 974 291



Mike Norman
Senior Manager

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3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

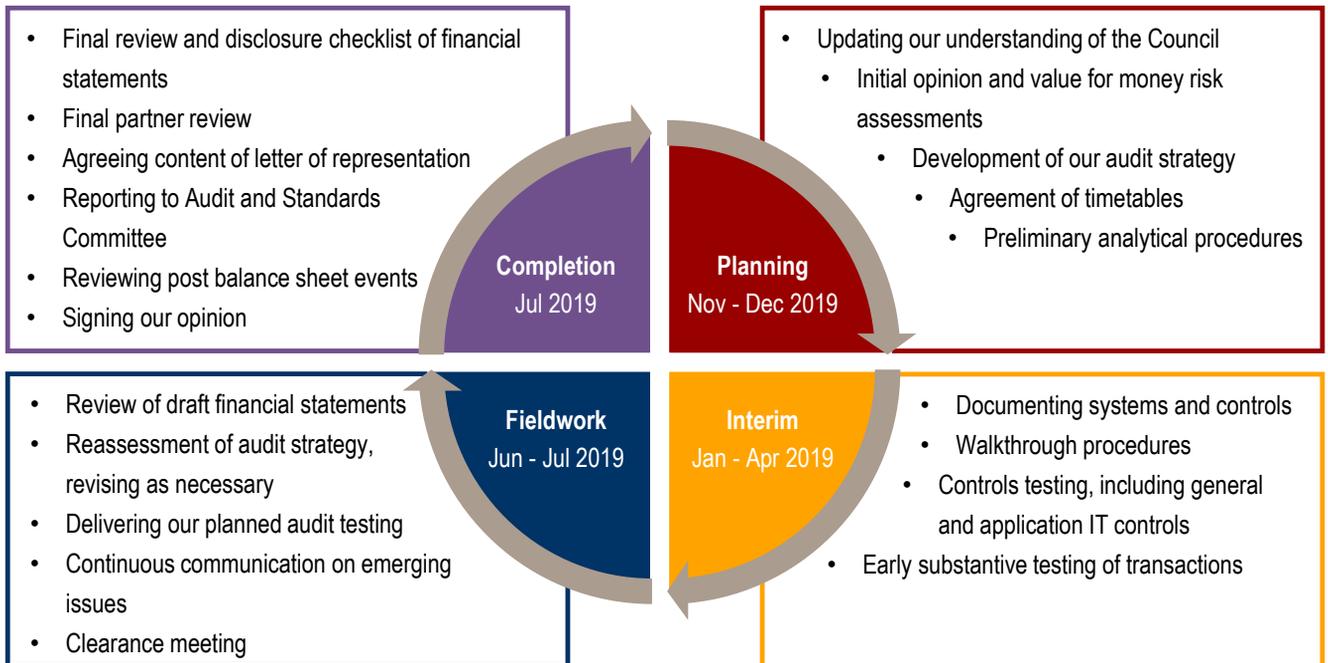
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson <i>Actuary for Leicestershire Pension Fund</i>	PWC <i>Consulting actuary appointed by the NAO</i>
Property, plant and equipment valuation	Wilks, Head and Eve LLP <i>External valuation specialist</i>	Gerald Eve <i>Valuations expert appointed by the NAO</i>
Business Rates Appeals valuation	Inform CPI Ltd <i>Analyse LOCAL Valuation System</i>	<i>Not Applicable</i>
Financial instrument disclosures	Arlingclose Limited <i>Treasury management advisors</i>	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Leicestershire Pension Fund <i>The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.</i>	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.
Council Tax (CT) Revenue, debtors and creditors Business Rates (BR) Revenue, debtors and creditors Housing Benefits (HB) Expenditure	Leicestershire Revenues and Benefits Partnership <i>The Council is a member of the partnership which manages the billing and collection of CT and BR revenue and carries out the processing of HB applications and payment of these benefits.</i>	We will review the controls operating at the Council over these transactions and gain an understanding of the services provided by the service organisation. We will determine whether the Council has sufficient controls in place over the services provided by the revenues and benefits service and whether we will be able to audit these transactions based on the records at the Council.



4. AUDIT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

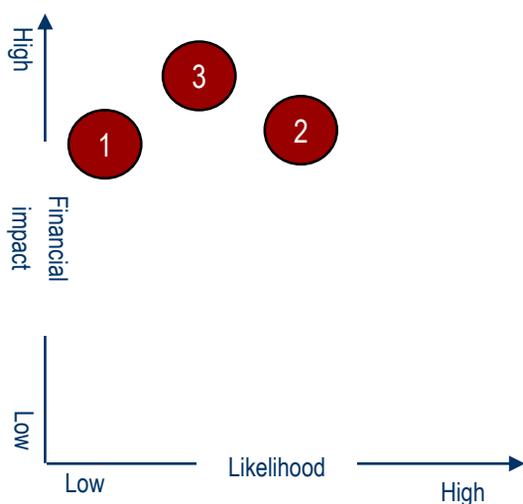
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council’s key financial systems and general IT controls. We aim to complete this work as part of our interim visit in January and will update the Audit and Governance Committee where we subsequently identify any additional risks.



Risk	
1	Management override of control
2	Property, plant and equipment valuation
3	Defined benefit liability valuation

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Governance Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>In relation to the management override of controls we will:</p> <ul style="list-style-type: none"> • Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Review the calculation of management's material accruals, estimates and provisions for evidence of management bias; • Evaluate the business rationale for any significant unusual transactions; • Understand the oversight given by those charged with governance of management process over fraud; • Sample test accruals and provisions based on established testing thresholds; and • Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
2	<p>Valuation of property, plant and equipment, investment properties and assets held for sale</p> <p>The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.</p>	<p>In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will:</p> <ul style="list-style-type: none"> • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Assess whether valuation movements are in line with market expectations by using our own valuation expert to provide information on regional valuation trends; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer's; and • Test a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	<p>Valuation of net defined benefit liability</p> <p>The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	<p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> • Critically assess the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary, Hymans Robertson; • Liaise with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Consideration of other mandatory risks

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above, but set out our considerations in respect of fraudulent revenue recognition below:

	Description of risk	Planned response
1	<p>Fraudulent revenue recognition</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.</p>	<p>We do not consider this to be a significant risk for North West Leicestershire District Council as:</p> <ul style="list-style-type: none"> • there is an overall low risk for local authorities, and particularly this Council; • there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and • the level of income that does not derive from either grant or taxation sources is low relative to the Council's overall income streams, and generally represents a number of low value, high volume transactions. <p>We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.</p>

Other risk areas

We have identified the following as a specific enhanced risk in this our first year as the Council's auditors:

	Description of risk	Planned response
1	<p>Prior year audit adjustments and Fixed Asset Register (FAR) opening balances</p> <p>The Council maintained a local spreadsheet based FAR for HRA properties during 2017/18 and deferred its move to a new on-line platform to allow it to process the prior year audit adjustments identified during KPMG's 2017/18 audit. The Council plans to migrate the current FAR data to the new platform during 2018/19 and it is the new system which will form the basis of the current year's FAR and accounting entries for the financial statements. It is important that the data is migrated completely.</p>	<p>We will discuss the arrangements for migrating the data with managers, review the work carried out and test a sample of opening balances and other data on the new system for consistency with the previous year's closing FAR.</p>

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement

Enhanced risks and key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	<p>Provision for business rate appeals against the rating list</p> <p>The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.</p>	<p>We plan to address this judgement by:</p> <ul style="list-style-type: none"> • Reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries; • Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy; and • Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability.
2	<p>Minimum revenue provision (MRP)</p> <p>Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.</p>	<p>We plan to address this judgement by:</p> <ul style="list-style-type: none"> • Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and • Confirming that any charge has been accounted for in accordance with the Code.

5. VALUE FOR MONEY

Our approach to Value for Money

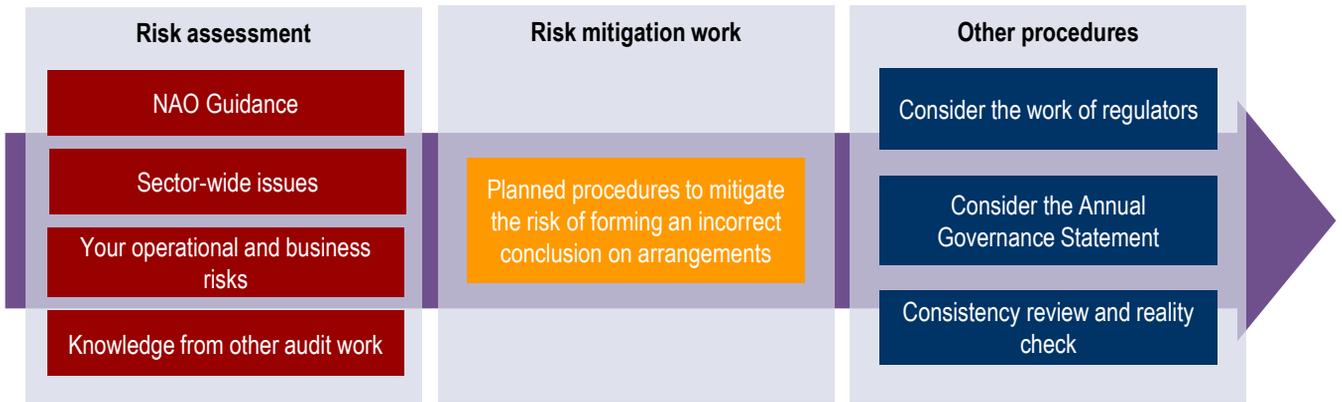
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2018/19 financial year, we have not identified any significant risks to our VFM conclusion. We have though identified two specific matters which we need to keep to under close review:

- Financial sustainability – the medium term financial position is uncertain (common to all bodies in the sector) and the demands/funding assumptions indicate a likely shortfall in future years. The Council is sighted on needing to be self-sufficient due to falling government grant levels. The Council is revisiting its budget and initiating a programme of transformation to bridge the gap. The forecast General Fund deficit at 2023 is £5.3m, without action being taken. We need to monitor the progress made and revisit position in relation to this risk before forming our VFM conclusion.
- Capital Programme – the construction of the new Leisure Centre is estimated to cost £20m with around £13m spend expected in 2019/20. This is a significant level of spend and we need to understand the specific project management arrangements and the financial implications of this project before forming our VFM conclusion.

We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist and where any such risk is identified, these will be reported to the Governance and Audit Committee as part of our Audit Completion Report.



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

Service	2018/19 fee	2017/18 fee
Code audit work	£38,902	£50,522

Fees for non-PSAA work

We have not been separately engaged by the Council to carry out any additional work over the fees outlined above in relation to our appointment by PSAA.

Should the Council wish us to undertake any additional work, before agreeing to this we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

As we have not been engaged to carry out any non-audit work to date, no threats to our independence have been identified. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold
Overall materiality	£1,195,000
Performance materiality	£777,000
Trivial threshold for errors to be reported to the Audit and Governance Committee	£36,000

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the 2017/18 total gross expenditure. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 2% of the benchmark based on the 2017/18 audited financial statements.

Based on the 2017/18 audited financial statements we anticipate the overall materiality for the year ending 31 March 2019 to be £1,195,000.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £777,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality
Officers' remuneration	£5,000 *
Members' allowances and expenses	£46,000
External audit costs	£8,000

* Reflecting movement from one salary band to another

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £36,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Audit and Governance Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit and Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost. However, we are aware that consideration will need to be given to the Council's holdings in property funds which may need to be reclassified from their current available for sale category.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. We are aware that, following the Ministry of Housing, Communities and Local Government consultations, a statutory override, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council are party to.</p>

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.



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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	INTERNAL AUDIT PROGRESS REPORT FEBRUARY 2019
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Head of Legal & Commercial Services/Monitoring Officer 01530 454762 Elizabeth.Warhurst@nwleicestershire.gov.uk</p> <p>Audit Manager 01530 454728 Lisa.Marron@nwleicestershire.gov.uk</p>
Purpose of report	To inform the Committee of progress against the Internal Audit plan for 2018/19 and to highlight any incidences of significant control failings or weaknesses that have been identified.
Council priorities	Value for Money
Implications:	
Financial/Staff	None.
Link to relevant CAT	Not Applicable
Risk Management	The Internal Audit planning process using a risk assessment based methodology.
Equalities Impact Screening	Not Applicable
Human Rights	None
Transformational Government	None.
Consultees	Heads of Service and Team Managers to update recommendations tracker.
Background papers	Public Sector Internal Audit Standards 2017/18 & 2018/19 Internal Audit Annual Audit Plan

Recommendations

**THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTE
THE REPORT**



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

Internal Audit Progress Report

FEBRUARY 2019

1. Introduction

- 1.1 The assurances received through the Internal Audit programme are a key element of the assurance framework required to inform the Annual Governance Statement. The purpose of this report is to highlight the progress against the 2018/19 Internal Audit Plan up to 28th February 2019.

2. Purpose of Internal Audit

- 2.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit play a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment, and therefore contribute to the achievement of the organisation's objectives.
- 2.2 Internal Audit provide a combination of assurance and consulting/advisory activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

3. Authority of Internal Audit

- 3.1 Internal Audit derives its authority from the Accounts and Audit Regulations 2015, the Internal Audit Charter and the Council's Constitution. The Financial Regulations, which are part of the Constitution, set out that 'Internal Audit has authority to:
- a) enter any Council owned or occupied premises or land at all times (subject to any legal restrictions outside the Council's control);
 - b) have access at all times to the Council's records, documents and correspondence;
 - c) require and receive such explanations from any employee or member of the Council as he or she deems necessary concerning any matter under examination; and
 - d) require any employee or member of the Council to produce cash, stores or any other Council owned property under their control.
 - e) The Senior Auditor shall have access to, and the freedom to report in his/her name to all boards, members or officers, as he/she deems necessary.

4 Responsibility of Internal Audit

- 4.1 Internal Audit will have the responsibility to review, appraise and report as necessary on:
- a) the adequacy and effectiveness and application of internal controls and processes and systems;
 - b) the extent of compliance with Financial Regulations and Standing Orders and approved policies and procedures of the Council plus the extent of compliance with external laws and regulation; and
 - c) the extent to which the Council's assets and interest are accounted for and safeguarded from losses of all kinds arising from waste, inefficient administration, poor value for money, fraud or other cause.

5 Independence of Internal Audit

- 5.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal Auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made.
- 5.2 If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to senior management and the Audit and Governance Committee.

7 Internal Audit Plan Update

- 7.1 Since the last update report the returning Audit Manager has undertaken a review of the plan and assessed current risks to ensure the most effective use of the Internal Audit resources, with a focus on high risk areas for the remainder of 2018/19. It should be noted that the Audit Manager can request additional resources if this is considered necessary to be able to give the Internal Audit Annual Opinion (this is in line with Public Sector Internal Audit Standards). The Audit Manager does not consider this to be necessary at this time however there have been a number of changes to the 2018/19 audit plan. These are detailed in Appendix A and include:
- Four audits deferred to 2019/20 (Property Services, Licensing, Enforcement Planning and Project Management).
 - Two audits removed from the plan (Planning Peer Review and Cultural Services).
- 7.2 The following progress has been made against the plan:
- Four final audit reports have been issued – Gas and Solid Fuel Maintenance and Servicing Performance Monitoring (2), Housing Repairs (3), Rent Accounting (4) and Creditors (5). The executive summaries for these reports are detailed in Appendix B.
 - Two audits have been issued for management review or in draft form – Grounds Maintenance (6) and Treasury Management (8).
 - Four audits are in progress – Health and Safety, HR and Payroll, S106 and Main Accounting System and Budgetary Control.
 - Two audits are at the engagement planning stage - Firmstep and New Council Houses.

8 Key Audit Findings and Trends

- 8.1 The Gas and Solid Fuel Maintenance and Servicing Performance Monitoring Audit resulted in a Grade 3 audit opinion (requires significant improvement). The main areas identified for improvement were:
- Delays in receipt of performance information from contractor.
 - Accuracy of performance reporting.
 - Assurances regarding security of data held by the contractor.

The report was issued for Management Review in October 2018, however there were delays in issuing the final report due to there being a period of time where there was no Audit Manager in post. It is pleasing to note that during this time the Service acted upon the recommendations made as part of the audit, with six of the nine recommendations having already been satisfactorily implemented by the time the final report was issued. The Service has also appointed a specialist third party auditor to

provide independent assurance with regards to the standard and quality of work undertaken by the contractor.

- 8.2 As part of the Procurement CAT the Head of Finance has initiated the development of a contract management guide. Internal Audit welcome this with the expectation that it will provide support and guidance to officers across the Council who have, or will have, responsibility for managing a contract.

9 Internal Audit Recommendations

- 9.1 Internal Audit monitors and follows up all critical, high and medium priority recommendations. All outstanding recommendations are included at Appendix C for information. This includes the recommendations that have been recommended and implemented in the November to February timeframe to show progress.
- 9.2 There is one recommendation outstanding from an audit that was carried out in 2016/17:
1. Review of Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
The Head of Finance is taking forward the recommendation to review the anti-fraud and corruption policy framework as this had previously been assigned to an officer who is no longer at the Council and did not form part of the formal handover. This work will be carried out by the Leicestershire Counter Fraud Intelligence Hub and will also test how embedded the policies are across the organisation.

10 Internal Audit Performance Indicators

- 9.1 Performance information for Internal Audit in relation to its team plan actions and performance indicators is documented in Appendix D.

2018/19 AUDIT PLAN PROGRESS TO 28th FEBRUARY 2019

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
HR & ORGANISATIONAL DEVELOPMENT											
Health & Safety	Risk Based	8	18	In progress							Planned days will be significantly exceeded due to audit being started by interim audit manager early in the year but only partially completed. The audit is now being progressed with an increased scope.
HOUSING											
Homelessness (New Homelessness Reduction Act)	Risk Based	8		Q4							
Housing Repairs (3)	Risk Based	15	20	Final report issued	Grade 2	-	1	4	-	-	No of planned days increased due to volume of testing required.
New Council Houses	Risk Based	5	0.1	Engagement Planning							
Gas and Solid Fuel Maintenance and Servicing Performance Monitoring (2)	Risk Based	10	12.4	Final report issued	Grade 3	-	5	3	1	-	Additional testing identified during the audit.
Property Services	Risk Based	8	-	Deferred to 2019/20 Q1							Audit deferred at request of Head of Housing and Property as new manager starts January 2019.
Housing ICT review	Advisory	2	-	As required							
COMMUNITY SERVICES											

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Grounds Maintenance (6)	Risk Based	7	12.4	Management review draft report issued							Planned days exceeded due to additional testing required during the audit.
Planning Enforcement	Risk Based	8	-	Deferred to 2019/20 Q1							Deferred to 2019/20 Q1 as new policy going to Cabinet in February 2019 therefore will audit against this.
Car Parking & Enforcement (1)	Risk Based	6	6.5	Final report issued	Grade 1	-	-	-	-	-	
Environmental Health (Licensing)	Risk Based	8	0.5	Deferred to 2019/20 Q1							Deferred to 2019/20 Q1 due to audit team focus on 'high risk' areas for remainder of 2018/19.
PLANNING											
Peer review outcomes (Review of implementation/follow up)	Risk Based	3	-	Removed from plan							This audit is no longer needed due to high level scrutiny of progress which Audit Manager can take assurance from.
S106 (Detailed follow up)	Risk Based	6	2	In progress							
ECONOMIC DEVELOPMENT											
Cultural Services	Risk Based	5	-	Removed from plan							Audit not required at this time – service under review and assurance taken from earlier grants audits.

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
FINANCE											
Creditors (5)	Key Financial System	6	6	Final report issued	Grade 2	-	2	1	-	-	
Rent Accounting (4)	Key Financial System	4	5.4	Final report issued	Grade 2	-	1	2	-	-	
Treasury Management (8)	Key Financial System	4	4.4	Management review draft report issued							
Sundry Debtors	Key Financial System	5		Scheduled Q4							
Main Accounting and Budgetary Control	Key Financial System	8	0.5	In progress							Budgetary control to be included here rather than a separate audit.
Budgetary Control	Key Financial System	7	-	Will be covered as part of MAS audit							Removed from plan as will audit with Main Accounting System.
HR & Payroll	Key Financial System	8	2.2	In progress							Number of days planned increased from 4 to 8 to reflect testing required.
Project Management (originally named Contract /Programme Management)	Risk Based	6	0.3	Deferred to 2019/20							Deferred to 2019/20 as systems and processes under review currently.
Finance service/systems reviews	Advisory	6	3	As required							
ICT											
Firmstep – Phase 1 Implementation	Risk Based	6	0.3	Engagement Planning							

8

KEY

Audit Opinion

Grade	Definition
1	Internal controls are adequate in all important aspects
2	Internal controls require improvement in some areas
3	Internal controls require significant improvement
4	Internal controls are inadequate in all important aspects

Recommendation Priority

Level	Definition
Critical	Recommendations which are of a very serious nature and could have a critical impact on the Council, for example to address a breach in law or regulation that could result in material fines/consequences.
High	Recommendations which are fundamental to the system and require urgent attention to avoid exposure to significant risks.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made,
Low	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
Advisory	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

EXECUTIVE SUMMARY OF INTERNAL AUDIT FINAL REPORTS ISSUED 01 NOVEMBER 2018 – 28 FEBRUARY 2019

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Main Areas for Improvement	Recommendations				
					C	H	M	L	A
2018/19 Audits									
2 – Gas and Solid Fuel Maintenance and Servicing Performance Monitoring	Housing Portfolio Holder	Head of Housing and Property Asset Management Team Manager	Grade 3	Delays in receipt of performance information from contractor. Accuracy of performance reporting. Assurances regarding security of data held by contractor.	-	5	3	1	-
3 – Housing Repairs 9	Housing Portfolio Holder	Head of Housing and Property Housing Commercial Services Team Manager	Grade 2	Updating system for Post Inspections. Indexing and updating procedure notes.	-	1	4	-	-
4 – Rent Accounting	Housing Portfolio Holder	Head of Housing and Property Housing Strategy and Systems Team Manager	Grade 2	Authority to write off rechargeable repairs debts.	-	1	2	-	-
5 – Creditors	Corporate Portfolio Holder	Head of Finance Finance Team Manager	Grade 2	Updating the list of authorised signatories and confirming officers who are authorised to approve. Review of authorisation limits held on finance system.	-	2	1	-	-

RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

Appendix C

Report	Recommendation	Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments		
2016/17 Reports								
11	Review of Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption	7	A review should be undertaken to confirm that the policy framework is satisfactory and policies are up to date.	Medium	Head of Finance Originally assigned to the Head of Transformation	Original target date 26.05.17 Project scoped with Leicester City Council. As at time of writing, proposal awaited to formally engage work.	In progress. Internal Audit will review outcome of work from Leicester City Council.	
2017/18 Reports								
8	Assistive Technology	15	A Service Level Agreement or similar document should be produced which clearly states the roles and responsibilities for each of the services involved in the provision of the Control Centre Service.	High	Housing Management Team Manager, Housing Support Team Leader, Customer Services Team Leader	January 2019 Extended until 31 st March 2019	Not yet due.	Internal Audit will follow up in April 2019.
10	Capital Accounting	1	It is recommended that a single Asset Disposal Policy is produced which includes disposal of Land and Buildings (Council and HRA), and Plant and Equipment. Responsibility for completion of the Land and Buildings element of the policy being	High	Head of Finance (S151 Officer) & Head of Housing and Assets	11 December 2018	Draft policy has been delayed. Will be presented to PDG, AMG, CLT and Cabinet during Q4/Q1.	This is in draft form and is being taken forward by the Head of Finance and Head of Housing and Property.

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments
			<p>assigned to the Asset Management Team Manager, the Plant and Equipment element being assigned to the Head of Finance (S151 Officer).</p> <p>The policy, once completed, should be formally approved (Asset Management Group, CLT) and made available to relevant staff.</p>					
11	Sundry Debtors	1	Operational procedure notes should be formalised and made available to all relevant staff in line with best practice. It may be prudent to undertake this exercise as part of the implementation of the new finance system in conjunction with any user manuals available.	Medium	Exchequer Services Team Leader	October 2019	Ongoing Process. Procedures updated and to be reviewed and finalised by 31.05.19. To be reviewed and updated again upon implementation of new finance system	Internal Audit to follow up formally at audit in March 2019.
		9	Aged debtor reports should be issued to services each month, the service should confirm review of the report and provide updates to Exchequer services where necessary.	Medium	Exchequer Services Team Leader	September 2018	Report has been produced by software supplier (final amendment 24.01.19). Testing being undertaken. To begin issuing by end of March 19.	Internal Audit to follow up formally at audit in March 2019.

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments	
		10	Debts which are likely to be written off as statute barred (over six years old) should be reviewed to confirm whether any further recovery action is feasible. Further review should be undertaken to establish whether the system can generate reports to assist in the review of sundry debtor accounts to ensure that recovery action is taken on a timely basis	Medium	Exchequer Services Team Leader / Senior Exchequer Services Assistant	October 2018	Review of processes and priorities undertaken and action plan in place. Reporting linked to Recommendation 9- additionally new report developed to assist in monitoring instalment plans. No write offs currently pending Compiling of data relating to new cases to commence during March 19.	Internal Audit to follow up formally at audit in March 2019.	
2018/19 Reports									
69	2	Gas and Solid Fuel Maintenance and Servicing Performance Monitoring	1	The information relating to Gas and Solid Fuel Servicing contained on the NWLDC website should be reviewed. Any out of date / incorrect information should be removed.	Low	Asset Manager	Implemented	Not required as recommendation has already been implemented.	Implemented
			2	Minutes of weekly contract meetings between contractor and NLWDC should clearly show actions to be taken and target for completion and assign responsibility for completing the action. Any subsequent minutes should show progress made against the action.	Medium	Asset Manager	Implemented	Not required as recommendation has already been implemented.	Implemented
			3	The necessity to hold weekly meetings with	Medium	Asset Manager	Implemented	Not required as recommendation has	Implemented – formal monthly meetings.

Report		Recommendation	Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments	
						already been implemented.		
		4	In order to effectively manage the contract, performance information should be received on a monthly basis and in advance of monthly contract meetings.	High	Asset Manager	Implemented	Not required as recommendation has already been implemented.	Implemented
		5	The contractor should be requested to provide performance information in such a way that it clearly identifies under performance and reasons for this. Where figures have been revised reasons for this should be obtained.	High	Asset Manager	31 January 2019	Ongoing.	Implemented
		6	Should the contract be extended the performance should be closely monitored and performance information provided to the Council on a monthly basis	High	Asset Management Team Manager	Implemented	Not required as recommendation has already been implemented.	Implemented
		7	The format and presentation of information contained within the Client Management report should be reviewed. The report should highlight areas of concern and points for discussion at	High	Asset Manager	31 January 2019	Implemented	Implemented

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments
			monthly contract meetings and be reviewed for accuracy prior to it being issued. Any supporting information to substantiate figures contained within the report should be retained in the event of any dispute.					
		8	Servicing certificates received from the contractor should be checked to confirm that they are original certificates and not photographs. A reminder should be issued to the contractor to advise that photographs of certificates are not acceptable.	Medium	Asset Manager	Implemented	Not required as recommendation has already been implemented.	Implemented
		9	Assurance should be obtained from the contractor regarding the security and retention of data they hold relating to Council tenants.	High	Asset Manager	31 January 2019	Ongoing	Follow up in progress.
3	Housing Repairs	1	The procedure for dealing with scrap materials should be finalised and circulated to all relevant staff	High	Repairs and Maintenance Manager	31 January 2019	Not required as recommendation has already been implemented.	Implemented
		2	Staff should be made aware of the Council's Whistleblowing Policy	Medium	Repairs and Maintenance Manager	31 January 2019	Not required as recommendation has	Implemented

Report	Recommendation	Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments
	and the purpose of this policy				already been implemented.	
	3 A review of those procedures held relating to Housing Maintenance should be undertaken. Those procedures found to be no longer relevant should be archived with clear indication that they are no longer relevant. Relevant procedures should be reviewed and updated as necessary. A version history being added to the procedures to clearly show when they were updated and approved.	Medium	Repairs and Maintenance Manager	31 March 2019	Deadline not yet reached. Work has commenced and is on track for completion by the target date.	Internal Audit follow up in April 2019.
	4 A table should be drawn up which contains those procedures relating to Housing Maintenance which shows when they are next due for review / update in order that this can be monitored.	Medium	Repairs and Maintenance Manager	31 March 2019	Deadline not yet reached. Work has commenced and is on track for completion by the target date.	Internal Audit follow up in April 2019.
	5 The procedures associated with recording of Post Inspections on the system should be circulated to those staff responsible for carrying out Post Inspections. Confirmation should be obtained from those members of staff to	Medium	Repairs and Maintenance Manager	31 March 2019	Implemented.	Implemented

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments
			confirm that they have read and understood the procedures.					
4	Rent Accounting	1	The possibility of recovering those arrears relating to Tenancy Ref: 004200520003 should be explored. If it is possible to recover these arrears guidance should be obtained from Capita to ensure that reports would identify similar cases in the future to enable prompt recovery action.	Medium	Income & Systems Team Leader	1 March 2019	Recommendation not yet due.	Internal Audit follow up March 2019.
		2	In conjunction with the Exchequer Services Team Leader, the former lifeline accounts (002010010LIFE001 and 530640250LIFE001) should be reviewed to determine the amounts which have been incorrectly invoiced. Where this is the case credit notes should be applied to cancel the original charge. The remaining balances (if any) should be considered for write off if no further recovery action is possible.	Medium	Income & Systems Team Leader and Exchequer Services Team Leader	1 March 2019	Recommendation not yet due.	Internal Audit follow up March 2019.
		3	A procedure should be agreed for the	High	Housing Strategy and	15 April 2019	Recommendation not yet due.	Internal Audit follow up March 2019.

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments
			authorisation for write off of debts relating to rechargeable repairs. Once agreed the FTA Recovery Procedure should be updated accordingly.		Systems Team Manager			
5	Creditors	1	The list of authorised signatories should be reviewed and updated accordingly. Where necessary, this will also require the issuing of new authorised signatories forms for those officers where there have been changes to their role or authorisation limits.	High	Finance Team Manager (Deputy S151 Officer)	Implemented	Not required as recommendation has already been implemented.	Implemented
		2	Following update of the authorised signatories spreadsheet, Total Live should be reviewed to confirm that the correct authorisation limits have been recorded.	High	Finance Team Manager (Deputy S151 Officer)	Implemented	Not required as recommendation has already been implemented.	Implemented
		3	It should be confirmed whether there has been formal agreement to allow Team Managers to authorise officers to approve expenditure and if so the relevant sections of the Council Constitution should be updated to reflect this. Where this is not the case the forms which	Medium	Head of Finance (S151 Officer)	March 2019	Recommendation not yet due.	Internal Audit follow up April 2019.

Report		Recommendation	Rating	Officer Responsible	Target Date	Responsible Officer Update	Internal Audit Comments
		have been authorised by Team Managers should be issued to the relevant Head of Service / Director to approve retrospectively					

Internal Audit Performance

Performance Measures:

Performance Measure	2018/19 Quarter 4 Target	Position as at 28.02.19	Comments
Delivery of 2018/19 Audit Plan	90%	47%	Performance below target mainly due to gap in resources at Audit Manager level, with accrued leave to take on return from maternity leave. Also the auditor had to take nearly all leave in the summer due to personal commitments. It is hoped to achieve 80-85% of the audit plan by year end.
Percentage of Client Satisfaction with the Internal Audit Service	100%	100%	Five client satisfaction questionnaires returned during 2018/19.
Compliance with the Internal Audit Standards	Full	No significant gaps in compliance	
Compliance testing of completed recommendations	90%	100%	

Service Plan Actions:

Key Deliverables (Action)	Quarter 4 Milestone	Position as at 28.02.19
Review and update Health and Safety risk assessments to ensure risks to staff and customers are controlled.	Health and Safety Assessment updated with action plan for improvements where necessary	Review Completed June 2018
Conduct self-assessment audit of all office areas and support activities of the Business Improvement Team.	Conduct Q4 self-assessment audit and report findings to Business Improvement Team	To be undertaken during Q4.
Complete audits as per risk based audit plan	Complete 90% of audit plan	Since the last update report, four final reports have been issued. Four audits are currently in progress, a further two at report drafting stage and two are at the engagement planning stage.
Quarterly progress reports to Audit and Governance Committee	Progress report to March A&GC	Progress report will be updated for March 2019 A&GC

Key Deliverables (Action)	Quarter 4 Milestone	Position as at 28.02.19
PSIAS compliant Annual Opinion report for presentation to June A&G Committee.	Prepare PSIAS compliant Annual Opinion report for presentation to June A&G Committee.	Presented to A & G Committee in July 2018.
A risk based annual audit plan for 2019/20 approved by 31 March 2019.	2019/20 annual audit plan to be presented to 20 th March A & GC.	Draft 2019/20 annual audit plan to be presented to CLT 6 th February 2019 and discussed at meeting with A&GC Members on 21 st February.
Deliver a shared service that Blaby District Council want to continue to share	Manage a shared service which meets SLA requirements.	No issues to report.

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019

Title of report	INTERNAL AUDIT ANNUAL PLAN 2019/20
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Head of Legal & Commercial Services/Monitoring Officer 01530 454762 Elizabeth.Warhurst@nwleicestershire.gov.uk</p> <p>Audit Manager 01530 454728 Lisa.Marron@nwleicestershire.gov.uk</p>
Purpose of report	To inform the committee of the proposed Internal Audit Annual Plan for 2019/20
Council priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	The Internal Audit planning process using a risk assessment based methodology.
Equalities Impact Screening	None
Human Rights	None
Transformational Government	Not applicable.
Consultees	Corporate Leadership Team and Audit and Governance Committee
Background papers	<p>Public Sector Internal Audit Standards.</p> <p>NWLDC Internal Audit Charter</p>
Recommendations	<p>THAT THE COMMITTEE</p> <p>1. NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.</p>

	2. APPROVES THE 2019/20 INTERNAL AUDIT ANNUAL PLAN.
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INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

2019/20 Internal Audit Annual Plan

1. INTRODUCTION

1.1 The Public Sector Internal Audit Standards require the Chief Audit Executive to develop a risk based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. This document sets out the background and the approach to producing the annual plan, with the 2019/20 annual plan attached at Appendix A.

2. BACKGROUND

2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit play a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment and therefore contribute to the achievement of the organisation's objectives.

2.2. Internal Audit provide a combination of assurance and consulting/advisory activities. Assurance work involves assessing how well the systems are designed and working, with consulting or advisory activities available to help to improve those systems and processes where necessary. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

2.3. The Internal Audit Charter sets out the purpose, authority and responsibilities of Internal Audit. The Charter:

- establishes Internal Audit's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit and Governance Committee (at North West Leicestershire DC the Chief Audit Executive is the Audit Manager);
- authorises access to records, personnel and physical properties relevant to the performance of engagements; and
- defines the scope of Internal Audit activities.

2.4 The Three Lines of Defence Model (below) is a valuable framework that explains Internal Audit's role in providing assurance that the management arrangements over governance, risk and internal control are adequate and effective.



Source: Chartered Institute of Internal Auditors (IIA) - UK

3. INTERNAL AUDIT PLAN

3.1. Overall Strategy

- 3.1.1 The key aim of the service is to provide an independent, objective assurance and advisory function which is designed to add value and improve the Council's operations. This supports North West Leicestershire DC in the achievement of its priorities and helps services to provide good value for money, as it brings a systematic disciplined approach to evaluating and improving the effectiveness of risk management and control and governance processes.
- 3.1.2 Each year the Audit Manager produces a risk-based annual audit plan. This is informed by a risk assessment which is based on a combination of:
- consulting with key stakeholders including senior management and the Audit and Governance Committee Members;
 - reviewing risk registers and committee minutes;
 - reviewing reports from external agencies (for example external audit) and legislative updates;
 - factors such as changes in staffing, systems and processes; and
 - the Audit Manager's professional judgement.
- 3.1.3 This approach enables the finite resources of the team to be focussed on areas where it can add value and conforms to the Public Sector Internal Audit Standards.
- 3.1.4 The outcomes from each audit engagement undertaken as part of the annual audit plan underpin the Audit Manager's annual opinion on the Council's internal control environment. This opinion feeds in to the Council's Annual Governance Statement.

3.2. Resources Available

- 3.2.1 The Audit Team who deliver the audit plan at North West Leicestershire District Council consists of the Audit Manager (0.48 FTE) and an Internal Auditor (0.69 FTE). Table 1 shows a calculation of the available audit days for 2019/20.

Table 1: Resources Available

Total Days	305
<i>Less leave/bank holidays/elections etc.</i>	56
<i>Less training and development</i>	6
	243
Available Days	
Team and Service Management / Annual Opinion/ Annual Plan/Audit Committees/Progress Reports/External Audit/Corporate Priorities	45
Corporate Meetings/Audit Admin/ Minutes Review/Regional Audit Groups	30
Available Audit Days	168

3.3. Internal Audit Annual Plan 2019/20

- 3.3.1 The proposed 2019/20 Annual Audit Plan is shown in Table 2 below and the detailed plan is shown in Appendix A. The Plan will be subject to ongoing review to ensure that it remains aligned with the Council's objectives and the risks identified by management in the risk registers. Any changes will be reported to the Corporate Leadership Team and the Audit and Governance Committee.

Table 2: 2019/20 Annual Audit Plan

Risk Based Audits	130
Follow up reviews	10
Advisory – Adhoc	6
National Fraud Initiative and RIPA	7
Risk Scrutiny	3
Public Sector Internal Audit Standards	6
Contingency	6
Total Audit Days	168

- 3.3.2 Three of the Council's key financial systems (Benefits, Council Tax and NNDR) are provided by the Leicestershire Revenues and Benefits Partnership, and therefore the audits will be undertaken by the internal auditors at Hinckley and Bosworth Borough Council.
- 3.3.3 The timings shown within the Internal Audit Annual Plan are estimates based on time taken on previous similar audits and a high level consideration of the scope and existing arrangements. As part of the set up process for each audit engagement the scope of the audit will be agreed in detail and a more accurate budget for audit days will be set. A contingency has been included in the plan to allow for variances in planned audits days against actual and for ad-hoc or fraud investigations that may arise during the year. Due to the limited resources available, only 6 days have been included at this time. The quarterly progress reports to Audit and Governance Committee include a comparison of planned to actual days for each audit undertaken.

3.4 Limitations

- 3.4.1 The matters raised in the audit reports will only be those which come to our attention during internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care will be taken to ensure that the information contained in audit reports is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

2019/20 INTERNAL AUDIT ANNUAL PLAN

AUDIT AREA	TYPE	TIMING	COUNCIL PRIORITY AREA*	PLANNED AUDIT DAYS
HR & ORGANISATIONAL DEVELOPMENT				
Project Management	Risk Based	Q3/Q4	All	8
Performance Management	Risk Based	Q3/Q4	All	6
Expenses/reimbursements	Risk Based	Q2	All	3
Health & Safety	Follow up review	Q3	2	5
			Subtotal	22
HOUSING AND PROPERTY				
Planned Maintenance - Stock Condition	Audit	Q1	3	6
Commuted Sums	Audit	Q2/Q3	3	6
Aareon Project	Assurance	Q1	3	4
Housing procurement card expenditure	Spot checks	Q1-Q4	3	2
Property Services	Audit	Q1	1,2 and 5	6
			Subtotal	24
COMMUNITY SERVICES				
Planning Enforcement	Audit	Q2	1,2,3 and 5	6
Licensing	Audit	Q1	2 and 4	6
CCTV	Audit	Q3/Q4	1 and 2	5
Leisure contract procurement	Audit	Q1/Q2	1,2,4 and 5	8
			Subtotal	25
ECONOMIC DEVELOPMENT				
Enterprising NWL Grants	Audit	Q1	1 and 4	5
			Subtotal	5
LEGAL AND COMMERCIAL SERVICES				
Information Governance	Audit	Q3	All	6

				Subtotal	6
FINANCE					
Procurement	Audit	Q2	All		8
Key financial systems (incl. Capital Accounting)	Risk Based	Q1-Q4	All		35
				Subtotal	43
Customer Services					
ICT Key Controls	Audit	Q2	All		2*
Revenues and Benefits - Memorandum of Understanding	Audit	Q2	2		3
*as will be buying in specialist ICT audit expertise				Subtotal	5
				Total	130

Key - Council Priority Areas*

1. Supporting Coalville to be a more vibrant, family friendly town.
2. Our communities are safe, healthy and connected.
3. Local people live in high quality, affordable homes.
4. Support for businesses and helping people into local jobs.
5. Developing a clean and green district.

***These are the draft Council Priority Areas as set out in the proposed Council Delivery Plan to be considered by Cabinet on 5th March 2019. Should there be any changes the 2019/20 Internal Audit Plan will be updated accordingly.**

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	GRANTS AND CLAIMS ANNUAL REPORT
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance and Section 151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk</p>
Purpose of report	To note the Annual Report on grants and claims 2017/19
Council priorities	Value for Money
Implications:	
Financial/Staff	As per the attached report.
Link to relevant CAT	None
Risk Management	The External Audit is an essential part of the Council's arrangements for compliance with laws and regulations, as well as maintaining good Value for Money.
Equalities Impact Screening	Not applicable.
Human Rights	No direct implications.
Transformational Government	No direct implications.
Consultees	None
Background papers	None
Recommendations	THE AUDIT & GOVERNANCE COMMITTEE IS ASSED TO NOTE THE ANNUAL REPORT ON GRANTS AND CLAIMS 2017/18.

1.0 BACKGROUND

- 1.1 Alongside the annual audit of the accounts, our auditors also undertake a review and carry out testing in relation to the council's Housing Benefit Subsidy Grant claim and Pooling of Housing Capital Receipts.
- 1.2 This work is now complete and the Certification of Claims and Returns annual report for 2017/18 attached (Appendix A) summarises the findings and recommendations of the Housing Benefit Audit.
- 1.3 The value of the adjusted subsidy following the audit of the Housing Benefit Subsidy Grant was £400 decrease out of a total claim of £17m. However, due to a recurring issue regarding the incorrect claimant data included in the benefit entitlement calculations, a qualification letter was issued and a recommendation issued with a priority rating of '2', meaning that the issue has an important effect on our arrangements for managing grants and returns or complying with scheme requirements. The Revenue and Benefits Partnership, who are responsible for this area of work of behalf of the NWLDC, have been asked to develop an action plan to address this matter. The Head of Customer Services who manages the Revenue and Benefits Partnership and the S151 Officer will monitor progress against the plan closely.
- 1.4 The fees for the audit work on Housing Benefit Subsidy Claim for 2017/18 totalled £9,128, compared to £15,184 for the 2016/17 year.
- 1.5 No significant issues were identified as part of the external audit review of the Pooling of Housing Receipts 2017-18 Pooling Return for the year ended 31 March 2018. The fee for the audit of the return for 2017/18 was £4,500, compared to £3,500 for 2016/17.



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Leicestershire
LE67 3FJ

Our ref KPMG/NWLDC/BEN01

11 January 2019

Dear Tracy

**North West Leicestershire District Council - Certification of claims and returns
- annual report 2017/18**

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2017/18.

In 2017/18 we carried out certification work on only one claim, the Housing Benefit Subsidy claim. The certified value of the claim was £17 million, and we completed our work and certified the claim on 30 November 2018.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our certification work identified a number of errors in the original claim. Where the error can be quantified by testing 100% of the population of potentially affected cases the claim can be amended. Where the population is too large for 100% testing to be practical or the errors results in an underpayment of subsidy, we need to write a qualification letter to explain what we found. The errors we found and the way they were dealt with are set out below:

Amendments to claim

The claim was amended to correct errors relating to Non HRA Rent Rebates VAT on rent liability cases following 100% testing of these cases, undertaken by your officers. The overall impact to the claim was a £400 decrease in subsidy claimed.

Qualification Letter

A qualification letter was required, due to a number of issues, as set out below:

- Non HRA Rent Rebates: Inclusion of incorrect assessment of VAT on rent liability in the benefit entitlement calculations;
- Rent Allowance: Inclusion of incorrect assessment of earnings in the benefit entitlement calculations;
- Rent Allowance: Inclusion of incorrect assessment of self-employment income in the benefit entitlement calculations; and
- Rent Allowance and Rent Rebates Modified Scheme: Inclusion of incorrect assessment of student loan income in the benefit entitlement calculations.

Recommendation

We have made one recommendation to the Authority to improve its claims completion process, which is included in Appendix 1.

In our 2016/17 Certification Annual Report we raised one recommendation relating to the improvement of the claim completion process. It remains outstanding at January 2019 and has been included in our 2017/18 recommendations. There are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2017/18 of £9,128. Our actual fee was the same as the indicative fee, and this compares to the 2016/17 fee for this claim of £15,184.



Yours sincerely

A handwritten signature in black ink, appearing to read 'Cardoza', with a horizontal line underneath.

Andrew Cardoza
Director, KPMG LLP

Appendix 1 – 2017/18 Certification of Claims and Returns Action Plan

Priority rating for recommendations		
<p>❶ Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>❷ Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>❸ Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

Number	Issue	Recommendation	Priority
1	The inclusion of incorrect claimant data included in the benefit entitlement calculations.	Review and improve the process for the inclusion of claimant data in the benefit entitlement calculations to reduce the level of errors being repeated in subsequent years.	❷

This report is addressed to the Council and has been prepared for the sole use of the Council. 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 Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	PROGRESS UPDATE IN RESPECT OF IMPROVEMENTS IDENTIFIED THROUGH THE ANNUAL REVIEW OF GOVERNANCE 2017/18
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance and Section 151 Officer 01530 454707 tracy.ashe@nwleicestershire.gov.uk</p>
Purpose of report	To update members in respect of improvements identified through the annual review of the Annual Governance Statement
Reason for Decision	To ensure members of the Committee are aware of the progress of improvements.
Council Priorities	Value for Money.
Implications:	
Financial/Staff	None.
Link to relevant CAT	None.
Risk Management	Not required.
Equalities Impact Assessment	Not required.
Human Rights	None identified.
Transformational Government	Not applicable.
Consultees	None

Background papers	http://prod-modgov:9070/documents/s18210/Annual%20Governance%20Statement%20201718%20Audit%20and%20Governance%20Committee%20Report.pdf?LO\$=1
Recommendations	THAT MEMBERS NOTE AND COMMENT ON THE REPORT

1.0 BACKGROUND

- 1.1 Members reviewed and approved the Annual Governance Statement (AGS) in respect of the 2017/18 year at its meeting on 10 October 2018.
- 1.2 A total of 14 improvement areas identified through this review (6 of which were carried forward from 2016/17), where it was recognised that the Council could strengthen its governance arrangements. These improvements were scored as fair, meaning that satisfactory governance exists in these areas but improvements are required to meet good governance. There were no significant issues identified for 2017/18.
- 1.3 It has been agreed that Committee members will review progress against improvement areas at regular intervals and the AGS of future years will report on the progress/completion of improvements areas or significant issues from the prior period.
- 1.4 This update is the second update members are presented with on improvements identified in 2017/18.

2.0 PROGRESS MADE IN RESPECT OF IMPROVEMENT AREAS 2017/18

- 2.1 Of the 14 improvements identified, 7 are complete and the remaining 7 are underway.
- 2.2 Full details can be found in Appendix 1.

**PROGRESS MADE IN RESPECT OF IMPROVEMENTS IDENTIFIED THROUGH THE REVIEW OF
THE ANNUAL GOVERNANCE STATEMENT 2017/18**

Improvement Action	Related Principle (s)	Officer Responsible	Status – 5 December 2018	Update – 5 December 2018	Status – 20 March 2019	Update – 20 March 2019
Review of Equality policy	A	Head of HR and OD	Underway	Policy has been agreed by CLT and the Equalities and Access Group. Currently out to consultation before going to PDG in February 2019.	Complete	Revised policy presented to PDG in February and approved by Cabinet 5 March 2019.
Approach to consultation and engagement (to be considered as part of the review of the communications team and consideration of functions of community focus services)	B, D	Head of Legal and Commercial	Not started	Officer Responsible currently under review.	Complete	<p>Since the Annual Governance Statement was produced, the council has</p> <ul style="list-style-type: none"> • Refreshed the corporate priorities and CDP (so we know what our intended outcomes are) • Developed comms principles which talk about communicating the right thing to the right person at the right time – so we know that we need to abide by this core principle in all our comms/engagement • We have developed a comms strategy which will align our messages to the CDP • We have, for the first time, explained the links and journey from members setting direction to delivery of services and monitoring (the road map at the back of the commercial strategy) • We are in the process of refreshing our corporate portfolio and aligning it to the CDP/team plans – we

						<p>could do with something which gives this piece of work priority as I think it has got a bit lost</p> <ul style="list-style-type: none"> • We have continued to improve our internal comms with blogs, inet articles and improved visibility of CLT • Improved working with ELT (these last 2 enhance the understanding of managers/organisation about the corporate priorities) <p>Approach to consultation therefore determined as embedded.</p>
Development of commercial strategy, to include review of need for a partnership working framework	C	Head of Legal and Commercial	Complete	Commercial strategy agreed by Cabinet in October 2018. The Council's approach to managing contracts/partnerships and any wholly owned companies will be considered as part of the commercial strategy. Implementation under way.	No further update required.	
Review of the Business Improvement function	D	Head of HR and OD	Complete	The team has been restructured from 01/09/18 and renamed the Organisation Performance Team.	No further update required.	
Consider introduction of public consultation on budget proposals	D	Head of Finance	Underway	Approach to public consultation on budget proposals in the early stages of development for 2020/21 budget setting. Annual Statutory consultation will be undertaken on 2019/20 draft Budget as per previous years.	Underway	Approach to public consultation on budget proposals remains in development for 2020/21 budget setting. Annual Statutory consultation completed on 2019/20 draft Budget.
Partnership Framework to be developed (as above)	E	Head of Legal and Commercial	Underway	The Council's approach to managing contracts/partnerships and any wholly owned companies will be considered as part of the commercial strategy	Underway	<p>Work has commenced in this area in identifying arrangements already in place and considerations as part of the Commercial Strategy.</p> <p>We already have in place procurement and legal support</p>

						<p>to contracts / partnerships / shared arrangements and collaboration, a risk management framework and undertake due diligence on major projects.</p> <p>The commercial strategy says that we will investigate other models for the delivery of services – so we have stated we are open to this.</p> <p>The strategy also talks about the development of capacity etc – the commercial skills programme has been developed which cuts across and up and down the organisation.</p> <p>The programme provides a mix of business skills and governance training in a pragmatic, commercial way. It's the first time we have provided governance training with a commercial focus.</p> <p>The Commercial Think Tank is an example of how we can run our projects in the same way (across and up and town) – recognising and developing talent.</p> <p>Further work to consider the need to develop an additional documented frameowkr that pulls the above together.</p>
Develop and implement People Plan	E	Head of HR and OD	Underway	Following consultations with CLT,ELT and trade unions the plan has been scrutinised by PDG and will go to Cabinet in December 2018. The associated action plan covers activities in 2019.	Complete	People Plan approved by Cabinet in December 2018. Associated action plan now underway. Progress against the action plan will

						be reported to the Policy and Development group on a six monthly basis.
Corporate Asset Management Strategy required to go with HRA Asset Management Strategy	E	Head of Housing and Property	Underway	In development, scheduled for Cabinet approval Quarter 4 2018/19.	Underway	Development of the strategy has been delayed due to vacancies and is now scheduled to be completed in draft by the end of Q4, with approval at Cabinet by June 2019.
Implementation of In-Phase	F	Head of HR and OD	Underway	Following a pilot scheme with Team managers the software will be used for Team Planning and performance reporting from April 2019. A report on the further implementation will be considered by CLT in February 2019.	Underway	InPhase is being implemented for all team plans and performance reports from April 2019, Information and training sessions have been undertaken / arranged for all members of CLT and Team managers. Arrangements are well advanced to ensure an integrated performance system is in place from April 2019.
Complete outstanding actions identified as part of the internal audit of anti-fraud and corruption in 2016/17. Raise awareness of anti-fraud and corruption with staff	F	Head of Finance	Not started	Additional support required to carry out this significant piece of work and seeking support from colleagues at Leicester City Council.	Underway	Project scoped with Leicester City Council. As at time of writing report, proposal awaited to formally engage work.
Embed finance business partnering model, including review of effectiveness and procure new finance system	F	Head of Finance	Underway	New finance business partnering service delivery model successfully launched in July 2018 with review scheduled towards the end of the 2018/19 financial year. Work to procure a new finance system due to commence early in 2019. Recruitment process underway to appoint a 12m fixed term Project Manager to support.	Underway	Initial recruitment exercise unsuccessful in attracting suitable candidate. Secondary recruitment process underway. Work to undertake soft-market testing in readiness of procurement underway however procurement process is unable to be launched until Project Manager role filled.
Implement actions to address issues identified through Internal Audit of Sundry Debtors	F	Head of Finance	Underway	Actions underway as per Internal Audit report.	Underway	Actions underway as per Internal Audit report.

Review the Council's supplier hosted systems and introduce measures to ensure that a SOC 2 report (or equivalent) is obtained on an annual basis.	F	Head of Customer Services	Underway	Review has been completed. Measures have been built into the ICT Team plan to review 3 rd party controls and SOC 2 reports, throughout the year and included as part of the ICT monthly performance submission.	Complete	ICT Team plan now has a task to review 3 rd party systems access for hosted systems.
Review and strengthen management and reporting arrangements for the Revenues and Benefits Partnership	G	Head of Customer Services	Complete	This is now complete, the new Head of Customer Services, attends multiple management boards and committees. Equally there is now Chief Exec representation on the joint committee and operational engagement on the operations board. All layers of management are now reflected.	No further update required.	

A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

B: Ensuring openness and comprehensive stakeholder engagement

C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

D: Determining the interventions necessary to optimise the

E: Developing the entity's capacity, including the capability of its leadership and the individuals within it achievement of the intended outcomes

F: Managing risks and performance through robust internal control and strong public financial management

G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	2018/19 MATERIALITY LEVEL AND ACCOUNTING POLICIES
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance and Section 151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk</p>
Purpose of report	To review and approve the accounting policy and materiality levels for 2018/19 financial statements
Council priorities	Value for Money
Implications:	
Financial/Staff	None identified.
Link to relevant CAT	None.
Risk Management	None identified.
Equalities Impact Screening	Not applicable.
Human Rights	No direct implications.
Transformational Government	No direct implications.
Consultees	External Audit
Background papers	None.
Recommendations	<p>TO CONSIDER AND APPROVE:</p> <ol style="list-style-type: none"> 1. THE DRAFT ACCOUNTING POLICIES FOR 2018/19 FINANCIAL STATEMENTS; AND 2. THE MATERIALITY LIMITS AS SET OUT IN APPENDIX B.

1.0 BACKGROUND

- 1.1 The accounting policies and materiality levels need to be reviewed and agreed, prior to the beginning of the closure of the accounts process.

2.0 ACCOUNTING POLICIES

- 2.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
- 2.2 Accounting policies are defined in the Code as “the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements”.
- 2.3 Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

- 2.4 The majority of accounting policies were previously agreed by the Head of Finance and Section 151 Officer and applied in the preparation of the 2017/18 Statement of Accounts remain appropriate for the preparation of 2018/19 Statement of Accounts. Paragraph 3.27 of the Audit and Governance Committee’s Terms of Reference (approved December 2018) requires the Committee to ‘consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council’. It is therefore considered good practice to the committee to have greater visibility over these accounting polices before they are applied.
- 2.5 The proposed accounting policies contained in Appendix A are therefore presented to Committee for approval. It is planned that this will take place on an annual basis going forward.
- 2.6 In order to comply with CIPFA Code of Practice for Local Authority Accounting in the UK (the Code) 2018/19, two accounting policies require updating this year; paragraph 2.7 below provides details of those policies which need amending.
- 2.7 The proposed accounting policies are in line with those used in the preparation of the 2017/18 accounts, with the exception of:
- a) 2. Accruals of Income and Expenditure – amended due to the adoption of IFRS 15 Revenues from Contracts with Customers, as identified in the Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19 report.
 - b) 10. Financial Instruments – amended due to the adoption of IFRS 9 Financial Instruments, as identified in the Changes to the Code of Practice for Local

Authority Accounting in the UK for 2018/19 report. Work is ongoing to determine the classification of individual financial instruments.

- 2.8 Specifically, section 23 of the accounting policies will be updated once CIPFA share their end of year bulletin outlining the accounting standards that have been issued but that will not be adopted for application from April 2019 (and therefore the 2019/20 accounts) or beyond.
- 2.9 There are no new accounting policies and the full list of accounting policies the council proposes to disclose in its Statement of Accounts notes are detailed in Appendix A.

3.0 MATERIALITY LEVELS

- 3.1 Materiality is defined in paragraph 2.3 above.
- 3.2 Setting materiality levels enables the finance team to identify significant variances and items that need disclosing in the financial statements.
- 3.3 Levels for the 2018/19 financial statements are set out in Appendix B for approval. The levels of materiality agreed by this committee will be used in the preparation of the financial statements and information provided for external audit purposes.
- 3.4 External Audit apply their own test of material misstatements. This is detailed in their external audit plan, which is a separate report on this agenda. The internal materiality levels presented to committee for approval in Appendix B have been set in reference to the external auditors own materiality levels.

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Notes to the accounts

Accounting policies

1. General Principles

The Statement of Accounts has been prepared with reference to the objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them, and on the underlying assumption of a going concern basis.

The Statement of Accounts summarises the council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Council's accounting policies are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the Council's accounts.

The Council's accounting policies as far as possible have been developed to ensure that the Council's accounts are understandable, relevant, free from material error or misstatement, reliable and comparable, and are applied consistently. A glossary of terms can be found at the end of this document.

2. Accruals of income and expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4. Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5. Prior period adjustments, changes in accounting policies and estimates and errors

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to revenue for non-current assets

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

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision) by way of an adjusting transaction

with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

MRP is determined as 4% of the opening balance for the financial period (the Regulatory Method)

7. Council tax and non-domestic rates (England)

Billing authorities act as agents, 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 themselves. Billing authorities are required by statute to maintain a separate fund (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.

Accounting for Council Tax and NDR

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

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



BEE a star staff awards

8. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off 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 wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves 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 the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of the council are members of the Local Government Pensions Scheme, administered by Leicestershire County Council. The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Leicestershire County Council pension fund 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 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 Leicestershire County Council 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 pension's 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 services for which the employees worked.
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (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 (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
 - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (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 Leicestershire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers 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 pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

9. 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 events 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.

10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in 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 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 that the council has, this means that 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.

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 or 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.

Financial Assets

Financial assets are classified using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- ⇒ • amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council's business model for most of its investments is to hold them to collect contractual cash flows. Financial assets are therefore classified as amortised cost. There are some exceptions, where the council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the district. This means that some investments are ones where contractual payments are not solely payment of principal and interest (i.e. where

the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in 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 financial assets held by the council, this means that 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.

The council has not given any loans to external or voluntary organisations, nor provided guarantees against loans they have received from financial institutions.

When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment

Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain 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. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses

are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument-by-instrument basis based on the assessed benefit to the council from the chosen classification.

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in 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 that the council has made, this means that 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.

11. Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable

revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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



Moira Furnace a listed monument of historical interest located in Moira which is owned by the council.

12. Heritage Assets

The council has two heritage assets which are held in support of increasing the knowledge, understanding and appreciation of the council's history and local area. These are Moira Furnace, a listed monument of historical interest located in Moira and Memorial Clock Tower, a Grade II listed building that services as a historic war memorial located in the centre of Coalville.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment – see note 18. The council will occasionally dispose of heritage assets. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial

statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see note 18 below).

13. Intangible Assets

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

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

Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

14. Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula. Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

15. Investment Property

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore

reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

16. Leases

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

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

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's

inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets.

Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

17. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

18. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council’s housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases – straight-line allocation over the useful life of the property as estimated by the valuer.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government (50% for land and other assets, net of statutory deductions and allowances and for dwellings, amounts determinable under the Right to Buy and One for One Agreement that the council signed in 2012). The balance of receipts remains within the Capital Receipts Reserve, and can then

only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

19. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

20. Reserves

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

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

21. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant

service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

22. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

23. Accounting standards that have been issued but have not yet been adopted

To be updated on receipt of the year-end CIPFA Bulletin issued under the guidance of LAAP.

Materiality Levels

The following materiality levels are proposed for the preparation of the 2018/19 financial statements:

Balance Sheet

Materiality will be set at 10% of the 2017/18 balance, subject to the external auditors advised materiality, although some areas are material by nature so this also needs to be taken into account.

Where the external auditors materiality is less than 10% of the balance sheet, the materiality applied internally is reduced to 90% of the external audit materiality.

The 2017/18 balances are deemed to be the best consistent point to assess materiality on as although the majority of the balance is reconciled and updated regularly throughout the year, some areas, the pension scheme liability for example is only updated at the end of the financial year.

Balance Sheet Area	2017/18 Balance £'000	Materiality Level at 10% £'000	External Audit Materiality £'000	90% of External Audit Materiality £'000	Internal Materiality Level £'000
Property, Plant and Equipment (PPE)	252,866	25,287	777	699	699
Debtors	2,606	261	777	699	261
Short Term Creditors	(11,871)	(1,187)	777	699	(699)
Provisions	(1,966)	(197)	777	699	(197)
Pension Liability	(46,298)	(4,630)	777	699	(699)

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	STANDARDS AND ETHICS - QUARTER 3 REPORT
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Head of Legal and Commercial Services and Monitoring Officer 01530 454701 elizabeth.warhurst@nwleicestershire.gov.uk
Purpose of report	To receive the figures for local determination of complaints and the ethical indicators for Quarter 2 of 2018/19.
Council priorities	Value for Money
Implications:	
Financial/Staff	N/A
Link to relevant CAT	N/A
Risk Management	By receiving this information members will be able to manage risks.
Equalities Impact Screening	N/A
Human Rights	N/A
Transformational Government	This relates to the new ways in which Councils are being asked to deliver their services
Consultees	N/A
Background papers	None
Recommendations	THAT THE REPORT BE RECEIVED AND NOTED

1.0 STANDARDS AND ETHICS Q3 REPORT

1.1 Enclosed is the Standards and Ethics – Quarter 3 Report for the committee’s review.

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STANDARDS AND ETHICS QUARTER 3 REPORT 2018/2019

Page 1 Introduction

Page 2 Local Determination of Complaints

Page 3 Part 2 – Ethical Indicators

Page 4 Stage 1 Complaints

Page 5 Stage 2 Complaints

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Page 7 Ombudsman (Complaints)

Page 8 Total Number of Complaints

Page 9 Freedom of Information (FOI)

Page 10 Regulation of Investigatory Powers Act Indicators

This is the quarterly report to the Audit & Governance Committee detailing both the figures for the Ethical Indicators and the figures for the Local Determination of Complaints process for 2018/19.

For clarification purposes the months covered by the quarters are as follows:

Quarter 1 – 1 April to 30 June

Quarter 2 – 1 July to 30 September

Quarter 3 – 1 October to 31 December

Quarter 4 – 1 January to 31 March

¹²⁹The report is split into 2 parts for ease of reference; Part 1 refers to the local determination of complaints, part 2 is the table showing the ethical indicators figures.

The report will enable the Audit & Governance Committee to build up a picture over time of how many complaints are received and where these are coming from. The parts of the Code of Conduct which have been breached will also be recorded to enable training to be targeted effectively.

The Monitoring Officer received 1 complaints in Quarter 3 of 2018/19.

2.1 Assessment Sub-committee Decisions

There has been 2 Assessment Sub-committee meetings in this quarter.

As members will be aware, the Monitoring Officer now pursues an informal dispute resolution process prior to initiating formal proceedings via the Sub-committee route.

0 complaints have been resolved informally in Quarter 3.

2.2 Timeliness of Decision

The Standards for England Guidance stated that the Assessment Sub-committee should complete its initial assessment of an allegation “within an average of 20 working days” to reach a decision on what should happen with the complaint. The Council has taken this standard and adapted it under the new rules to aim to hold an Assessment Sub-committee within 20 working days of notifying the parties that informal resolution is not possible.

2.3 Review Requests

There have been 2 review requests in Quarter 3. Both of these related to a single complaint (which had two complainants). Review requests can only be made following a decision of ‘No further Action’ by the Assessment Sub-committee where there is submission of new evidence or information by the complainant. The review requests were both denied as they did not come with new evidence or information from the complainant.

2.4 Subsequent Referrals

None to report – see above.

2.5 Outcome of Investigations

There were no investigations concluded in this period.

2.6 Parts of the Code Breached

This section is intended to show where there are patterns forming to enable the Audit and Governance Committee to determine where there needs to be further training for Councillors. Targeting training in this way makes it more sustainable and, hopefully, more effective.

So far this year, the following areas of the code were found to have been breached:

N/A

REF	Performance Indicator Description	Officer Responsible For Providing Information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19						
1.0	Objections to the councils accounts	Financial Planning Team Manager	0	0	0	0	0	0		
1.1	Follow up action relating to breaches of the Member/Officer Protocol (Members)	Head of Legal And Support Services	0	0	0	0	0	0		
1.2	Disciplinary action relating to breaches of the Member/Officer Protocol (staff)	Human Resources Team Manager	0	0	0	0	0	0		
1.3	Public interest reports	Senior Auditor	0	0	0	0	0	0		
1.4	Number of whistle blowing incidents reported		0	0	0	0	0	0		
1.5	No. of recommendations made to improve governance procedures/policies		17	25	19	0	22	19	15	
1.6	No. Of recommendations implemented		12	5	16	17	17	13	20	

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Definition of a Stage 1 complaint:

First stage of a formal complaint. A formal complaint can be made if a customer believes a service within the Council has let them down, we did something wrong or a service we provided was unfair. We have 10 working days to provide to response to the complaint.

Complaints responded to on time in Q3
71%

We received an average of 7 Complaints a month in Q3

Our average response time was
10 days

Top 3 types of Stage 1 complaints Q3

- Environmental Protection
- Planning and Development
- Housing Assets and Property

In Q3 the Service Area with the most complaints was Environmental Protection but out of the five separate complaints, none of them had a common thread. They varied from fly tipping, planning enforcement issues, noise and bird mites. Planning and Development complaints were all issues relating to granted applications.

20 Stage 1 complaints were resolved in Q3. This is a decrease of 23% from Q3 17/18 but reflects the lower number received.

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19						
Stage 1 Complaints Received			Actual 2017/18	2018/19						
2.0	Total no. of Stage 1 complaints received	Corporate Complaints Officer	28	30	31	22	30	21		
2.1	No. of Stage 1 complaints Resolved		26	29	14	11	26	20		
2.2	No. of customers who raised their Stage 1 complaint to a Stage 2		5	2	3	5	4	4		
2.3	No. of Stage 1 complaints still open and within 10 days		2	1	17	11	4	1		

Definition of a Stage 2 complaint:

If the customer is dissatisfied with our response to their Stage 1 complaint, they can ask for this to be raised to a Stage 2 for further investigation. These investigations are carried out by Heads of Service. We have 10 working days to provide a response to the complaint.

Stage 2 Complaints responded to in Q3 **100%**

We received an average of 2 complaints a month in Q3

Our average response time was 14 days

Top types of Stage 2 complaints Q3

- Planning and Development
- Environmental Health
- Waste Services
- Housing Management

5 Stage 2 complaints were resolved in Q3.

The average response time for this quarter was above the standard 10 working days mainly due to 2 cases relating to Planning and Development. The first case related to planning permission for an extension and the impact on parking. The second case was also relating to planning and parking access/issues. This case is now currently being investigated by the Ombudsman as the complainant was unhappy with both our Stage 1 and 2 responses.

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19						
Stage 2 Complaints Received			Actual 2017/18	2018/19						
3.0	Total no. of Stage 2 complaints received	Corporate Complaints Officer	5	7	3	5	4	5		
3.1	No. of Stage 2 complaints Resolved		3	7	1	5	1	5		
3.2	% of stage 2 complaints answered on time		60	29	0	60	75	40		
3.3	No. of Stage 2 complaints still open and within 10 days		2	0	3	0	3	0		

Definition of an MP Enquiry:

These are enquiries sent in from local MP's on behalf of their constituent. These can be independent enquiries or could be linked to an earlier complaint which we may not have resolved to the customer's satisfaction. We have 10 working days to provide a response to the enquiry.

MP enquiries responded to in Q3
100%

We received an average of 2 MP enquiries a month in Q3

Our average response time was 7 days.

What the MP Enquiries were about:

- Revenues and Benefits
- Environmental Protection
- Business Focus
- Planning and Development

Whilst the average response time is very good at 7 days, there were 2 cases for Environmental Protection that were 13 and 14 days respectively. Firstly one case was involving a neighbour dispute and secondly an ongoing Planning Enforcement issue.

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19						
MP Enquiries received			Actual 2017/18	2018/19						
4.0	Total no. of MP enquiries (req) received	Head of Legal and Support Services	19	9	32	14	19	7		
4.1	% of req responded to on time		63	67	44	64	58	72		

Definition of an Ombudsman complaint:

If the customer has followed our Stage 1 and Stage 2 complaints procedure and is still unhappy with the outcome, they are entitled to take their complaint to the Local Government Ombudsman for independent judgement. They will review the details and decide whether we, as a Council, have a case to answer in respect of the complainant.

Ombudsman Complaints received in Q3 was 1

We received an average of 1 Complaint a month in Q3

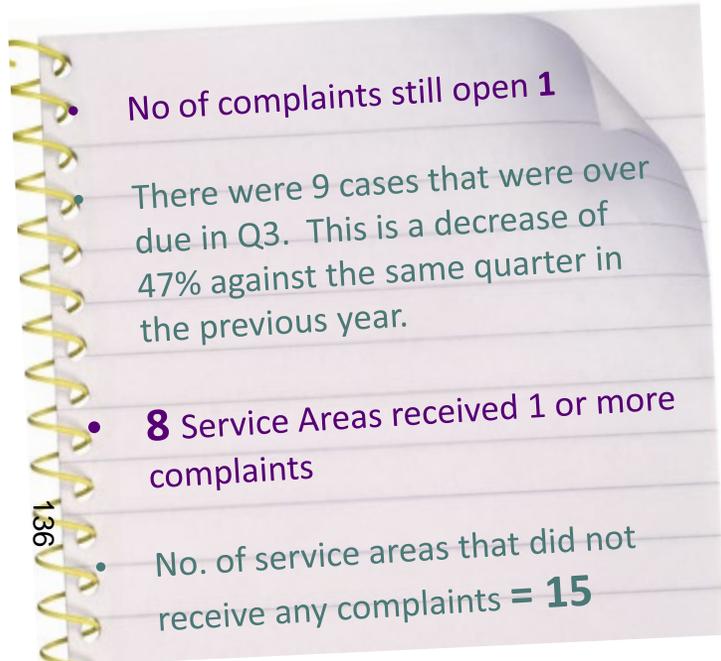
1 old case was resolved during Q3

What the Ombudsman complaints were/are about:

- Planning and Development

The older case resolved in Q3 involved Revenues and Benefits, the handling of a debt and the actions of the Council and its enforcement agents which led to the complainant being pursued for a debt he did not owe. The Council has made changes to its procedures and the complainant and his mother being offered an appropriate level of compensation agreed with the Ombudsman. The new case received was in relation to a planning issue affecting parking and access to a neighbouring property.

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19						
Ombudsman Complaints received			Actual 2017/18	2018/19						
5.0	Total no. of Ombudsman Complaints received	Head of Legal and Support Services	0	0	2	2	0	1		
5.1	No of req still open and within 10 working days		0	0	2	1	2	1		



The breakdown of Service Areas that received 1 or more complaints in Q3 are:

- Environmental Health
- Environmental Protection
- Housing Commercial Services
- Housing Assets and Property
- Housing Management
- Planning and Development
- Revenues and Benefits
- Waste Services

Total number of complaints responded to in Q3
25

We received an average of 9 complaints per month in Q3

Our average response time was 11 days

25 complaints were resolved in Q3. This is a 32% decrease from the same period in 17/18 which reflects a decrease in the overall number of complaints received.

What we do differently as a result of the complaints received:

- Following the complaint about debt collection and enforcement we have improved the Council's procedures in respect of tracking and enforcing debts. A review of the Council's use of enforcement agents was also carried out and reported to Policy Development Group.

In relation to operating a smooth complaints process:

- We ensure that when investigating a complaint, we cover all the points that the complainant has included in their correspondence to us. This will ensure that when preparing the response, we answer their questions/complaint fully and to the best of our knowledge. This will possibly then avoid a raise to a Stage 2.
- We are still working hard at maintaining good relationships with the investigating officers who look into and prepare responses to a complaint. This is very important when discussing timescales and assisting with responses ensuring that we are always providing the investigating officers with all the information they need to prepare a full and final response to a complaint.

Type of FOI requests received:

Business as usual (BAU) requests:
If the requested information can be quickly and easily sent to the requester then it may be dealt with within the normal course of business and treated as BAU.

Total number of BAU requests in Q3 - 55

Transfers:
Are FOI requests received by us but do not fall within our remit- i.e. Adult Social Care, Children's Services or Highways are a few examples.

Total number of Transfers in Q3 - 32

Subject Access Requests (SAR):
A SAR is a request from an individual to see information an organisation holds on them.

Total number of SAR received in Q3 - 2

Land charges (LC) searches:
Specific information about a particular property and the surrounding area for buyers and sellers.

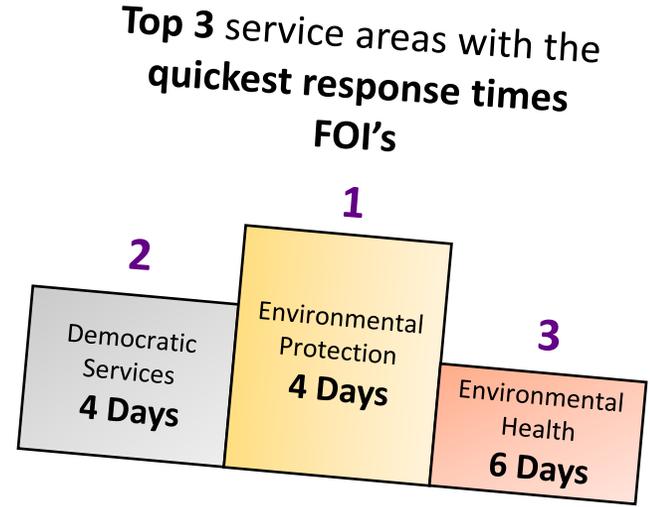
Total number of LC Searches in Q3 - 5

21 unique visitors to the council's open data page

We received an average of **23 FOI's** a month in Q3

Our average response time was **11 days**

We had an increase of **72%** compared to Q3 (17/18) for number of FOI's received



REF	Performance Indicator Description	Officer Responsible for providing information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19						
Freedom of Information Act Indicators			Actual 2017/18	2018/19						
6.0	Total no. of requests (req) received	Records Management Officer	120	43	82	57	40	69		
6.1	% req answered on time		100	84	100	96	95	100		
6.2	No. of non compliant req		9	0	2	2	0	0		
6.3	No of FOI appeals		0	0	0	0	1	0		
6.4	Number withheld due to exemptions/fees applied		5	7	0	11	1	5		

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19						
7.0	No. of directed surveillance authorisations granted during the quarter	Senior Auditor	0	0	0	0	0	0		
7.1	No. in force at the end of the quarter		0	0	0	0	0	0		
7.2	No. of CHIS recruited during the quarter		0	0	0	0	0	0		
7.3	No. ceased to be used during the quarter		0	0	0	0	0	0		
7.4	No. active at the end of the quarter		0	0	0	0	0	0		
7.5	No. of breaches (particularly unauthorised surveillance)		0	0	0	0	0	0		
7.6	No. of applications submitted to obtain communications data which were rejected		0	0	0	0	0	0		
7.7	No. of notices requiring disclosure of communications data		0	0	0	0	0	0		
7.8	No. of authorisations for conduct to acquire communications data		0	0	0	0	0	0		
7.9	No. of recordable errors		0	0	0	0	0	0		

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019

Title of report	TREASURY MANAGEMENT ACTIVITY REPORT APRIL 2018 TO FEBRUARY 2019
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance / S151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk</p>
Purpose of report	To inform Members of the council's Treasury Management activity undertaken during the period April 2018 to February 2019.
Council priorities	Value for Money
Implications:	
Financial/Staff	Interest earned on balances and interest paid on external debt, impact on the resources available to the council.
Link to relevant CAT	Could impact on all corporate action teams
Risk Management	Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of treasury Management and the retention of Treasury Management advisors (Arlingclose) to proffer expert advice.
Equalities Impact Screening	Not Applicable
Human Rights	Not Applicable
Transformational Government	This relates to the new ways in which Councils are being asked to deliver their services
Consultees	None
Background papers	Treasury Management Strategy Statement 2018/19 – Council 27 February 2018.

	<p>Treasury Management Activity Report April to August 2018 – Audit and Governance Committee 10 October 2018</p> <p>Treasury Management Activity Report April to October 2018 – Audit and Governance Committee 5 December 2018</p> <p>Budget and Council Tax Report – Council 26 February 2019</p>
Recommendations	THAT MEMBERS APPROVE THIS REPORT AND COMMENT AS APPROPRIATE.

1.0 BACKGROUND

- 1.1 Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the code"), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and investment activity.
- 1.2 As a minimum, the code requires that the council reports on the performance of the Treasury Management function at least twice yearly (mid-year and at year end). This is the third of three in-year reports to be presented in 2018/19, to inform Members of the council's treasury activity and enable scrutiny of activity and performance. The first and second were reported to Audit and Governance Committee on 10 October 2018 and 5 December 2018.
- 1.3 The council's current Treasury Management Strategy Statement which includes the Borrowing Strategy; Debt Rescheduling Strategy; Annual Investment Strategy; Apportionment of Interest Strategy; Prudential Indicators and Annual Minimum Revenue Provision was approved by Council on 27 February 2018.
- 1.4 Investing or borrowing activities expose the council to financial risks including the loss of invested funds and revenue effects of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the council's Treasury Management strategy.

2.0 THE UK ECONOMY AND OTHER FACTORS

- 2.1 Economic and interest rate forecasts are provided on a regular basis by our treasury advisors (Arlingclose). The summary below is based on the Monetary Policy Committee meeting in February 2019.

In February 2019 the Monetary Policy Committee (MPC) kept Bank Rate at 0.75%. UK economic growth slowed in late 2018 and appears to have weakened further in early 2019. This slowdown mainly reflects softer activity abroad and the greater effects from Brexit uncertainties at home. These uncertainties could lead to greater-than-usual short-term volatility in UK data, which may therefore provide less of a signal about the medium-term outlook. Heightened uncertainty and elevated bank funding costs are assumed to subside over time, as greater clarity on future trading arrangements is assumed to emerge. These developments, together with looser fiscal policy, provide support to domestic spending.

CPI inflation fell to 2.1% in December and is expected to decline to slightly below the MPC's 2% target in the near term, largely due to the sharp fall in petrol prices which has occurred since

November. As that effect unwinds, CPI inflation rises above 2%. The weaker near-term outlook is likely to lead to a small margin of slack opening up this year. As a result, domestic inflationary pressures firm, as the upward pressure on inflation of sterling's past depreciation wanes. Under the assumptions that condition the February Report, inflation settles at a rate a little above the target.

Key Issues in the Inflation report:

MPC's key judgements: UK GDP growth appears to have slowed and is expected to remain subdued over much of 2019, reflecting both weakening global growth and the intensification of Brexit uncertainties. The impact of those uncertainties is projected to wane gradually, consistent with the MPC's assumption of a smooth withdrawal of the UK from the EU. Conditioned on paths for interest and exchange rates that are somewhat more stimulative than in November, UK GDP growth begins to pick up later this year and is expected to be a little stronger in the medium term than was projected three months ago. Although it remains modest by historical standards, demand growth exceeds potential supply growth on average over the forecast. As a result, excess demand builds over the second half of the forecast period, raising domestic inflationary pressures. In the near term, inflation is expected to fall to slightly below the MPC's 2% target, largely reflecting the sharp fall in oil prices which has occurred since November. As that effect unwinds, CPI inflation rises above 2%, and remains a little above the target for the rest of the forecast period.

Outlook for inflation: CPI inflation fell to 2.1% in December. The fall over the past year has been partly due to the diminishing effects of the referendum-related sterling depreciation. CPI inflation is expected to dip temporarily below 2% in the coming months, mainly reflecting lower energy price inflation, before rising back above the target in 2020 and remaining a little above 2% as domestic inflationary pressures increase.

Global economic and financial market developments: Global growth was lower than expected in 2018 Q4, the near-term outlook has softened and sentiment in financial markets around growth prospects has deteriorated. Corporate bond spreads widened markedly and equity prices fell at the end of 2018, before recovering somewhat in January. Market-based expectations for policy rates have fallen, such that overall global financial conditions are broadly unchanged. UK asset prices have responded to those global developments, and have remained sensitive to news related to Brexit. In particular, wholesale bank funding costs have risen. If persistent, this may put some upward pressure on interest rates facing households and companies.

Demand and output: GDP growth appears to have slowed at the end of 2018 and is expected to remain subdued in the near term. Investment and trade pulled down GDP growth in the year to 2018 Q3, in part reflecting an intensification of Brexit uncertainties and weakening global growth. Consumption growth has been more resilient, supported by faster real income growth, although some indicators have weakened recently. The outlook for growth remains highly sensitive to the effects of Brexit.

The labour market and supply: The MPC judges that supply and demand in the economy were broadly in balance in 2018 Q4. Subdued demand growth over 2019 means that a degree of spare capacity is projected to emerge in the near term, however. Following the MPC's regular reassessment of supply-side conditions, potential supply growth is projected to be a little weaker than previously anticipated. Over the forecast period as a whole, demand growth is projected to outstrip that subdued rate of potential supply growth such that a margin of excess demand builds.

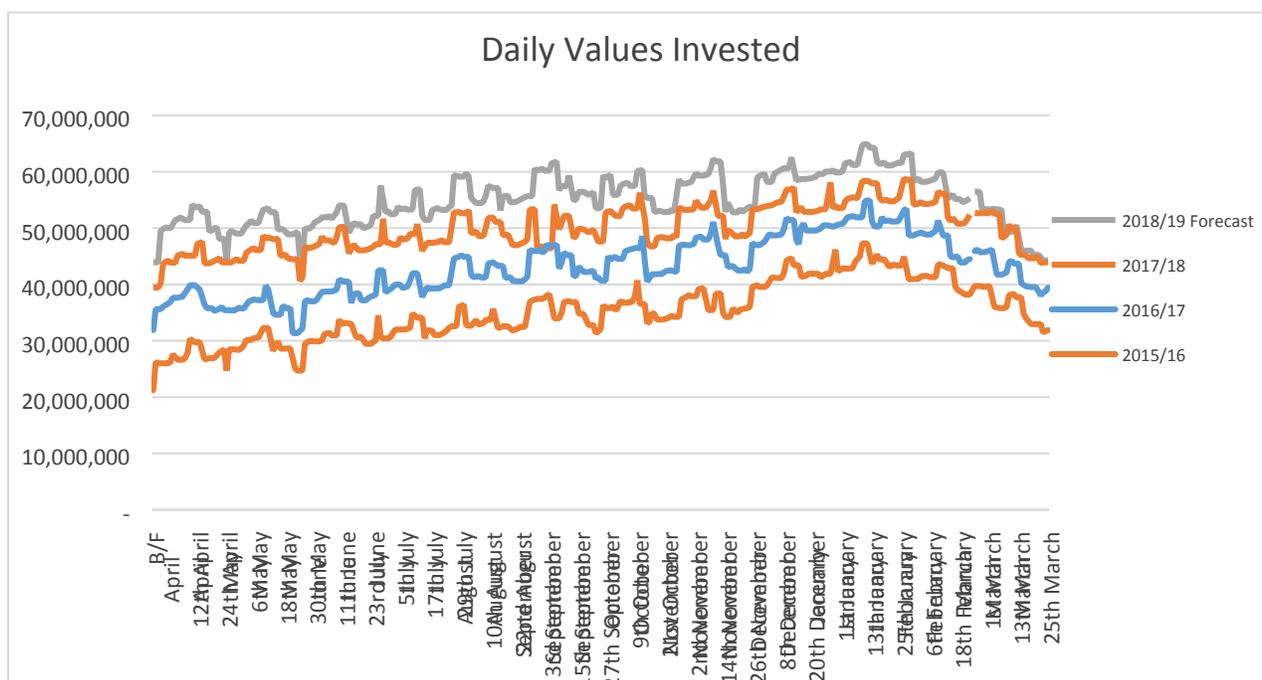
3.0 THE COUNCIL'S TREASURY POSITION.

3.1 The council's current strategy is to use internal borrowing to reduce risk and keep interest costs low. The treasury management current position and the change over the reporting period is shown below.

	Balance at 01/04/18 £m	Net Movement £m	Balance at 03/03/2019 £m
Long term borrowing - HRA	£74.0	(£0.6)	£73.4
Long term borrowing – General Fund	£8.4	£0	£8.4
Other long-term liabilities - HBBC	£0.1	£0	£0.1
Total Borrowing	£82.5	(£0.6)	£81.9
Long term investments – greater than 1 year	£12.0	(£6.5)	£5.5
Short term investments – less than 1 year	£29.3	£15.9	£45.2
Pooled funds and externally managed investments*	£2.6	£3.2	£5.8
Total Investments	£43.9	£12.6	£56.5
Net debt	£38.6	(£13.2)	£25.4

*Money Market Funds

- 3.2 The investment position varies throughout the year as it is dependent upon cash flow. Examples of significant areas that can impact on cash flow are collection of Council tax, business rates, grants, and capital receipts, payments to other precepting authorities or central government and interest on treasury activity.
- 3.3 In the period April 2018 to February 2019, the capacity for investment has increased by £12.6m. The volatility of balances is normal throughout the year and a number of factors contribute to this during the financial year:
- The council (as it typically does) has benefit from the receipt of Council Tax and Business Rates during the first ten months of the financial year whilst revenue expenditure is more evenly weighted throughout the financial year;
 - Capital expenditure is more heavily weighted towards the latter part of the financial year due to the time required to schedule programmes of work or award contracts.
- 3.4 The patterns of income and expenditure are variable and are compared to previous years. The current patterns are in line with the expected trends as shown in the graph below. These patterns are reflected in the council’s cash flow projections which is monitored and revised daily as part of the treasury management process.



4.0 BORROWING ACTIVITY

- 4.1 The council's Borrowing Strategy 2018/19, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the council's Prudential Indicators.
- 4.2 The council's updated estimated borrowing requirement for 2018/19 is £2.53m. In the two subsequent years, this is estimated to be £11.223m in 2019/20 and £11.445m in 2020/21. These figures have been updated to reflect the Capital Budget position, reported to Council on 26 February 2019.
- 4.3 The council has not undertaken any new long-term borrowing during the period as the levels of cash balances held have meant that we are currently able to use internal borrowing.
- 4.4 The council has two PWLB annuity loans as part of the self-financing of the HRA. The repayment element for these in 2018/19 is £1.103m.
- 4.5 During the reporting period of April 2018 to February 2019, the council's cash flow remained positive and did not require any temporary loans.

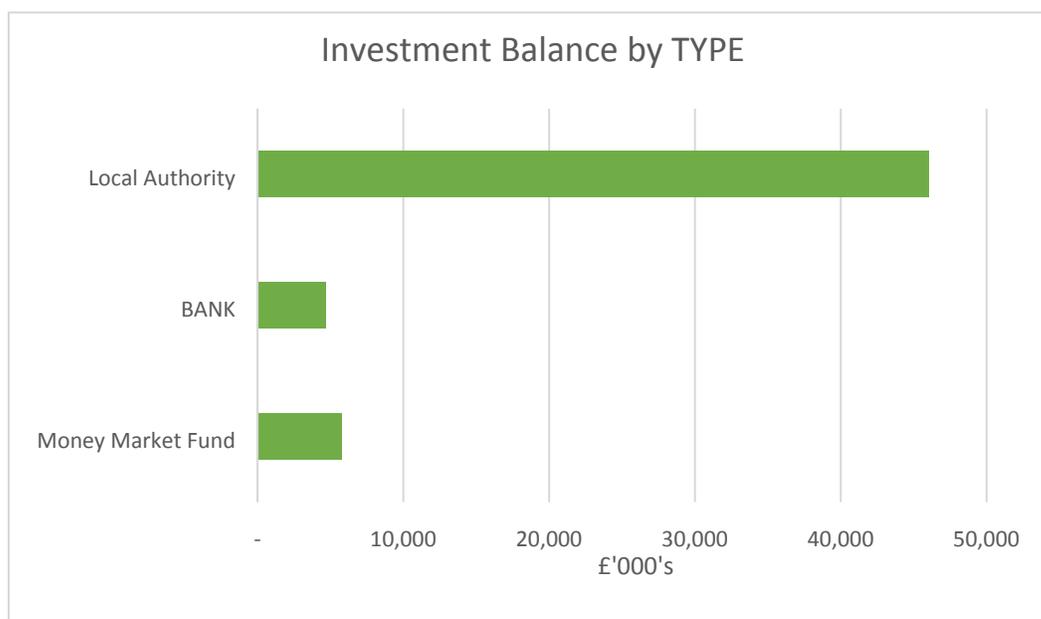
5.0 DEBT RESCHEDULING ACTIVITY

- 5.1 The council's Debt Rescheduling Strategy 2018/19 establishes a flexible approach where the rationale for rescheduling could be one or more of the following:
- Savings in interest costs with minimal risk.
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.
- 5.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the council has undertaken no debt rescheduling activity during the period.
- 5.3 The council's portfolio of thirteen loans - ten PWLB loans and three market loans – will continue to be monitored for debt rescheduling opportunities.

6.0 INVESTMENT ACTIVITY

- 6.1 The main objective of the council's Investment Policy and Strategy 2018/19 is to invest its surplus funds prudently.
- 6.2 The council's investment priorities are:
- security of the invested capital;
 - sufficient liquidity to permit investments; and,
 - Optimum yield which is commensurate with security and liquidity.
- 6.3 To lower the inherent investment risk, the council has minimised the use of banks and increased the use of other Local Authorities as investment counterparties. A range of lengths of investment, from overnight investments to short and long fixed term, from 32 days to 3 years, are currently utilised to ensure that the principles of security, liquidity and yield are

followed. The table below shows the type of counterparties used by the council and the values currently invested.



- 6.4 The counterparties that the council currently use all meet the criteria set out in the Treasury Management Strategy Statement 2018/19 and are monitored by the Treasury Management Advisors. A detailed list of the counterparties used and amounts currently invested can be seen in Appendix A.
- 6.5 The average rate of return on the council's investment balances during the period was 0.70% (increased from 0.64% reported in the Treasury Management Activity Report April to October 2018). For comparison purposes, the benchmark return at the end of February 2019 for the average 7-day London Interbank Bid Rate (LIBID) was 0.50% and the average 7 day London Interbank Offered Rate (LIBOR) rate was 0.63%. This shows that we are achieving a good rate of return against the benchmark.
- 6.6 The council's treasury management advisors produce investment benchmarking quarterly. The latest available is based on 31 December 2018. The rate of return achieved by the council is compared to 62 other district councils and the average of 148 local authorities, the yield is itemised by types of investments. The current internal investment return of the council of 0.70% is comparable to 0.81% achieved by the district councils and average of all of the local councils in the benchmarking data. The full benchmarking summary can be seen in Appendix B.
- 6.7 The total rate of return on investments for 2018/19, is forecast to be 0.72%.
- 6.8 Short and long term interest rates are rising marginally since the increase on the base rate by the Bank of England to 0.75% in August 2018. Our treasury advisors are forecasting that the base rate will remain low over the medium term due to the increase in magnitude of political and economic risks facing the UK economy.
- 6.9 There were 123 investments made during the period totalling £197.7m and 108 maturities totalling £184.6m. The average balance held for the period was £55.6m.

- 6.10 Of the investment and maturities, 36 were fixed term investments taken out during the period and 31 were fixed term investments that have matured during the period. The fixed term investments were for amounts ranging between £1m and £5m.
- 6.11 The council has budgeted to achieve £229,000 of income from its investment activity in 2018/19. Investment activity from April to February 2019 has achieved £357,893 in interest for the financial year. The current forecast that is estimated to be achieved is £396,062.
- 6.12 Of this total, an element is applied to balances held on external income. This external income largely represents balances from S106 contributions that have not yet been spent. The estimated amount forecast to be applied is approximately £21,454 subject to the balances remaining at the end of the financial year. There is no budget applied to this element as S106 contributions are only achieved when specific conditions are met and are anticipated to be spent.
- 6.13 The estimated remaining balance (£374,608) received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on the estimated cash flow position. For 2018/19, the budgeted investment income is apportioned as follows: £145,300 General Fund and £83,700 Housing Revenue Account. Any over or under achievement of interest is apportioned on this basis. The current budget and forecast is shown in the table below

	Budget	Projected
General Fund	£145,300	£237,688
HRA	£83,700	£136,920
Sub-Total	£229,000	£374,608
External Balances	£0	£21,454
Total	£229,000	£396,062

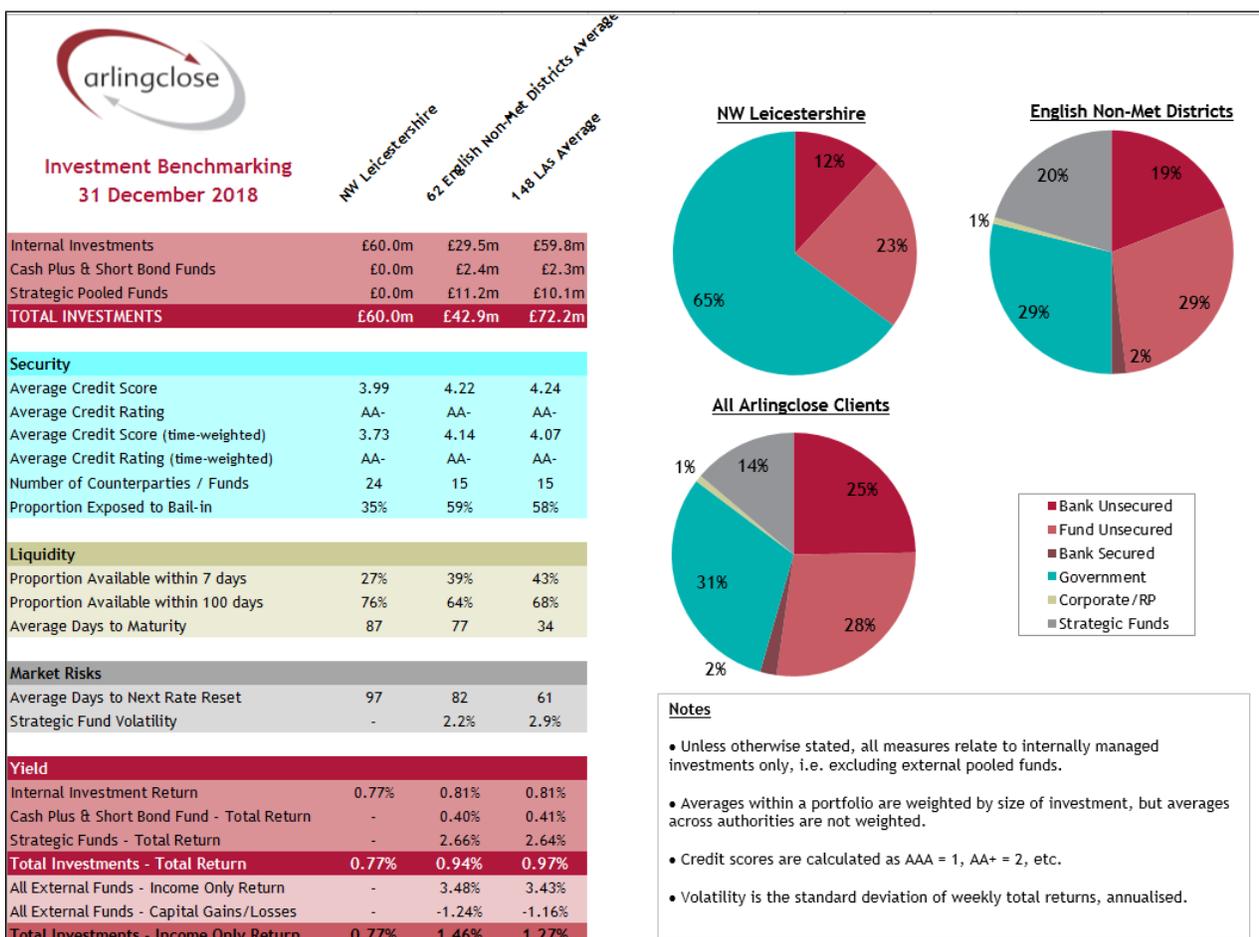
- 6.14 The council sets maximum investment limits per counterparty in its Investment Policy and Strategy. These limits are specific to the council to ensure adherence to S.L.Y (Security; Liquidity; Yield) and to minimise the risk of losses should a counterparty fail or require a bail-in. The council's current bank account is included in these limits.
- 6.15 The major income and expenditure streams are accounted for as part of the daily treasury management operational processes. Variations in income are anticipated by ensuring that there is scope to absorb estimated fluctuations in the bank account. Variations in income of up to £100,000 are a prudent estimate based on historical experience.
- 6.16 In the reporting period, the counterparty limit for our banking provider (Lloyds) has been breached on two occasions. On 31 December 2018 the limit was breached by circa £143,000 due to income being processed earlier than it should have been. This was a banking day but the offices were closed. On 15 January 2019, the limit was breached by circa £90,000 due to a large S106 payment made to us by cheque which cleared overnight. These events were not something the council could have taken action to avoid.
- 6.17 All investments, except paragraph 6.16, made during the period, complied with the council's agreed Annual Investment Strategy, Treasury Management Practices, Prudential Indicators and prescribed limits.

7.0 SUMMARY

- 7.1 In compliance with the requirements of the CIPFA code of practice, this report provides Members with a summary report of the Treasury Management activity for the period April 2018 to February 2019. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 7.2 For the reporting period, other than the breach of prescribed limit detailed in 6.15, the council can confirm that it has complied with its Prudential Indicators, which were approved by Council as part of the Treasury Management Strategy Statement.
- 7.3 For the reporting period, the council can confirm that it has complied with its Treasury Management practices.

Appendix A

Counterparty	Length	From	To	Amount	Rate
Aberdeen Asset Management MMF	Overnight	01/03/2019	02/03/2019	1,800,000.00	0.77%
Federated Investors MMF	Overnight	01/03/2019	02/03/2019	3,000,000.00	
CCLA MMF	Overnight	01/03/2019	02/03/2019	1,000,000.00	0.77%
Lloyds Main	Overnight	01/03/2019	02/03/2019	15,218.92	0.65%
Bank of Scotland	Overnight	01/03/2019	02/03/2019	1,395,000.00	0.65%
Lloyds Notice Account	32 days	01/03/2019	02/04/2019	250,000.00	0.80%
Santander Notice Account	95 days	01/03/2019	04/06/2019	1,495,000.00	0.85%
Newcastle City Council	1093	31/03/2016	29/03/2019	2,500,000.00	1.13%
Northumberland County Council	1096	03/04/2017	03/04/2020	3,000,000.00	0.99%
Thurrock Council	288	18/06/2018	02/04/2019	1,000,000.00	0.66%
Walsall Metropolitan Borough Council	238	17/07/2018	12/03/2019	5,000,000.00	0.60%
Salford City Council	203	29/08/2018	20/03/2019	2,000,000.00	0.78%
Leeds City Council	247	22/08/2018	26/04/2019	2,000,000.00	0.80%
Stirling Council	254	17/09/2018	29/05/2019	1,500,000.00	0.87%
North Lanarkshire Council	181	25/09/2018	25/03/2019	2,000,000.00	0.85%
Thurrock Council	191	19/11/2018	29/05/2019	1,000,000.00	0.86%
Moray Council	171	28/09/2018	18/03/2019	1,000,000.00	0.88%
Eastleigh Borough Council	165	15/11/2018	29/04/2019	1,000,000.00	0.83%
Eastleigh Borough Council	315	07/11/2018	18/09/2019	2,000,000.00	0.90%
Lloyds Bank Fixed Term Deposit	182	19/11/2018	20/05/2019	1,500,000.00	0.90%
Kingston-upon-Hull City Council	183	26/11/2018	28/05/2019	1,500,000.00	0.90%
Central Bedfordshire Council	113	19/11/2018	12/03/2019	2,000,000.00	0.72%
Surrey Heath Borough Council	181	15/11/2018	15/05/2019	1,000,000.00	0.95%
Kingston-upon-Hull City Council	112	19/12/2018	10/04/2019	2,500,000.00	0.90%
Blackpool Borough Council	181	06/02/2019	06/08/2019	2,000,000.00	0.85%
Conwy County Borough Council	181	28/02/2019	28/08/2019	2,000,000.00	0.90%
Thurrock Council	181	15/01/2019	15/07/2019	1,000,000.00	0.89%
Liverpool City Council	182	11/02/2019	12/08/2019	2,000,000.00	0.90%
Uttlesford District Council	185	21/01/2019	25/07/2019	1,500,000.00	0.92%
Thurrock Council	181	08/02/2019	08/08/2019	1,000,000.00	0.92%
Broxtowe Borough Council	181	01/02/2019	01/08/2019	1,000,000.00	0.92%
Slough Borough Council	183	28/02/2019	30/08/2019	2,500,000.00	0.98%
Highland Council	269	26/02/2019	22/11/2019	2,000,000.00	1.05%
Total				56,455,218.92	



NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019

Title of report	CORPORATE RISK UPDATE
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Strategic Director of Housing and Customer Services 01530 454819 glyn.jones@nwleicestershire.gov.uk</p> <p>Head of Finance 01530 454707 tracy.bingham@nwleicestershire.gov.uk</p>
Purpose of report	To receive the Quarter 3 Corporate Risk Update
Reason for decision	1. The Risk Management Policy requires regular risk updates to be presented to the Audit and Governance Committee.
Council priorities	Value for Money
Implications: Financial/Staff	The Council manages its risks within existing budgets. Effective risk management protects the Council from insurance and/or compensation claims, fraud, and a range of other financial liabilities.
Link to relevant CAT	No direct link.
Risk Management	As detailed in the report.
Equalities Impact Screening	Not applicable.
Human Rights	Not applicable.
Transformational Government	Not applicable.
Consultees	None
Background papers	None

Recommendations

1. THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTES THE QUARTER 3 CORPORATE RISK UPDATE.

1.0 BACKGROUND

1.1 Cabinet approved the updated Risk Management Policy at its meeting on 1 May 2018.

1.2 One of the requirements of the Policy is for members of this Committee and Cabinet to receive details of the high level risks monitored through the Corporate Risk Register. The updated Risk Register can be found at Appendix 1 and a quarterly review of this is now a standing agenda item for this Committee going forward. The updated Risk Register is also now included as an appendix to the Quarterly Performance Reports presented to Cabinet, with any exceptional items being highlighted.

2.0 SUMMARY

2.1 The Risk Scrutiny Group reviews the corporate risks quarterly and recommends any changes through the Corporate Leadership Team prior to the information being presented to this committee.

2.2 The two most recent risks that have been added to the Risk Register are around local government re-organisation and the UK's exit from the European Union. There has been one change to a Risk Rating – the likelihood of major local government re-organisation (risk 12) has deemed to have reduced which brings the risk rating down from 9 to 6. Whilst there continues to be uncertainty at a national level around the UK's departure from the European Union, planning and mitigation measures at a local level are well advanced, so there has been no movement in the rating of this risk (no.13).

2.3 Audit and Governance Committee are asked to review and note this risk update, and provide any feedback they wish to be considered by the Risk Scrutiny Group.

APPENDIX 1

Corporate Risk Register													
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
1	SOCIAL/ POLITICAL/ LEGAL Death / serious harm to a vulnerable person receiving a council service	A serious case review arising from death/serious harm to a vulnerable person. Reputational damage to council. Loss of confidence in ability of council to deliver services.	Lack of response to a safeguarding report. Service failure.	4	4	16	Community Safety Manager	Head of Communities	The organisation has the following structures in place; An identified Corporate Lead (Head of Service) with a Portfolio Holder lead An identified Team responsible for Safeguarding (Safer & Stronger) with responsibility embedded into Team Leader role and an officer (Child & Adults at risk Officer) An agreed Safeguarding Policy refreshed as required with delegation to Director of Housing and Customer Services for updates An identified group of Designated Safeguarding Officers (DSO's) in most service areas A programme of regular DSO meetings which consider training, best practice and case issues An annual training programme to ensure new DSO's are well informed and trained A quarterly senior management review of all cases to check progress/close cases A quarterly briefing with the Chief Executive, a 6 monthly report to CLT and an annual report to Cabinet Annual report reviews previous year and endorses an action plan for the year ahead.	4	2	8	Stable
2	FINANCIAL/ COMMERCIAL/ REPUTATIONAL Mismanagement of council finances	Central Government intervention/special measures. Adverse publicity. Possible litigation. Withdrawal of services.	Mis-interpreting of or not responding appropriately to a change in fiscal policy. Poor budget planning / management. Internal financial systems and regulations not being properly applied.	4	4	16	Head of Finance	Strategic Director of Housing and Customer Services	Monthly management reviews monitor actual spend against budgets and forecast to the end of the year. Monthly reporting and challenging at CLT, and reported to Cabinet quarterly Sound policies and procedures are in place. Financial planning processes have been documented and are reviewed regularly.	4	1	4	Stable

									Internal and External audit of systems and accounts. Membership of CIPFA and engagement of Arling Close gives access to specialist advice, analysis and expertise.				
3	REPUTATIONAL/ LEGAL COMMERCIAL Insufficient resources due to unplanned / unforeseen absences / vacancies	Council unable to perform its statutory duties. Use of external resources at significantly higher cost.	Failure to horizon scan and interpret future needs in Inability to recruit to vacancies / retain staff.	4	2	8	Head of HR and OD	Chief Executive	Advance planning will mitigate this risk; Ability to divert resources from other services, bringing in additional resources from other sources (e.g. Agencies, Consultants, Voluntary/ Community sector etc.) would be activated. Market conditions are tested through recruitment processes. The Council can offer a package of additional benefits to enhance the recruitment offer. The Council has developed innovative partnering relationships with other sectors including the private sector to make posts uniquely attractive. Best Employee Experience is a programme to attract and develop the right skills, and promoting existing staff talent through secondments and tailored development programmes. Apprenticeships allow the Council to 'grow our own'.	3	2	6	Stable
4	LEGAL / FINANCIAL Contracts are not properly procured and managed	Council liable to incur additional costs, contract overrun, litigation and potential health & safety issues as well as service disruptions.	Failure to monitor contractors appropriately. Legal and procurement teams not consulted when contractors are engaged. Loss of key staff or supplier. Procurement procedures are not followed.	3	4	12	Finance Team Manager. All Team Managers.	All Heads of Service	Corporate procurement officer and legal team to support where necessary on contract management. Policies and procedures are in place. Reserve contractor in place where appropriate. A Senior Procurement Officer oversees a procurement planning process. Training programme in place for staff.	3	2	6	Increasing *Change due to departure of previous Procurement Manager.
5	LEGAL / TECHNOLOGICAL Loss or unlawful use of personal data constituting	Monetary penalties from ICO, adverse publicity, private litigation and personal criminal liability of officers.	Systems not in place to protect sensitive data.	3	3	9	Legal Services Team Manager	Head of Legal & Support Services	Policies and procedures are in place although not yet rolled out and fully embedded.	3	2	6	Stable

	breach of data protection legislation		Staff are not properly trained in managing information, and do not follow internal procedures.						Corporate Governance training is undertaken annually and includes information governance as appropriate to reflect changes in legislation. The Council has a dedicated SIRO. Corporate Governance Groups are in place to scrutinise impacts/issues arising.				
6	LEGAL / REPUTATIONAL / COMMERCIAL Failure to respond to an emergency in an appropriate manner	General public at risk of harm or unable to access relevant services (e.g. emergency accommodation or rest centre). Adverse publicity. "Business as usual" not possible without appropriate business continuity plan in place. Breakdown in relationship with other responders.	Lack of planning, training and exercising of Emergency plans Inadequate Corporate Business Continuity Management. Lack of procedural understanding	4	3	12	Head of Human Resources and Organisation Development	Chief Executive	Business continuity plans have been documented, policies and procedures are in place. The LRF partnership arrangement with all Leicestershire and Rutland authorities provide resilience during civil emergency situations. Business Continuity exercises show the readiness of the Council to deal with emergencies. System of ICO / FLM duty rotas is in place.	4	1	4	Stable
7	LEGAL/ TECHNOLOGICAL/ COMMERCIAL Infiltration of ICT systems	"Business as usual" would not be possible. Cost of repelling cyber threat and enhancing security features.	Systems not in place or kept current to deflect any foreseeable cyber attack. Limited staff awareness of possible threats.	4	4	16	ICT Manager	Head of Customer Services	Fully resilient environment in place with no single points of failure for core systems, other critical systems use cold standby equipment. New business services are run in remote fully resilient data centres and existing systems are being progressively migrated to these cloud computing centres. Improved business recovery arrangements have been implemented to minimise recovery time. Accreditation to Cyber Essentials Plus and the Public Services Network.	3	2	6	Increasing
8	COMMERCIAL / POLITICAL / FINANCIAL Projects are poorly managed	Failure of proposed projects could result in failure to achieve overall objectives. Inefficient use / waste of resources.	Failure to implement project management techniques. Poor corporate oversight of projects. Inadequate or poorly performing Project Management Office function.	3	4	12	Head of Human Resources and Organisation Development	Chief Executive	Properly convened project teams with PID and project plan in place, including project risk registers. Progress on corporate projects scrutinised by CLT. Use of external resources is also being used to support the Coalville and Leisure projects.	3	3	9	Stable

9	LEGAL / POLITICAL / REPUTATIONAL Council makes ultra vires (beyond the council's powers and functions) decisions	Potential litigation against the Council, resulting in increased costs / compensation. Reputational damage.	Staff / Members proceeding outwith established governance arrangements. Failure to consult with Legal / Monitoring Officer. Lack of understanding of the implications of dealing with a particular matter.	4	3	12	Legal Services Team Manager	Head of Legal & Support Services	Policies & procedures in place, governance processes are documented and in operation, ongoing assessments and reviews are performed. Completion of the Annual Governance statement.	4	1	4	Stable
10	FINANCIAL / LEGAL / REPUTATIONAL Council is subject to fraud, corruption or theft	Financial, reputational and political damage to Council.	Lack of checks and balances within financial regulations. Poor budget / contract management. Poor monitoring of / adherence to financial systems	4	3	12	Head of Finance. All Team Managers & Heads of Service.	Directors	A policy framework that includes Anti-Fraud and Corruption Policy, Confidential Reporting (Whistleblowing) Policy and Anti-Money Laundering Policy. The Internal Audit annual planning process takes into account high risk areas, which considers fraud risks. Fraud risks are considered as part of specific audits with testing designed to detect fraud where possible. The Council is also subject to External Audit. Internal control and governance arrangements such as segregation of duties, schemes of delegation, bank reconciliations of fund movements, and verification processes. Information on how to report fraud is on the website including relevant links. Participation in National Fraud Initiative (mandatory) and Leicestershire Fraud Intelligence Hub (voluntary). Leicestershire Revenues and Benefits Partnership have two trained officers working solely on Council Tax Reduction Scheme Fraud and act as Single Point of Contact for DWP referrals.	3	2	6	Stable

11	FINANCIAL / COMMERCIAL / ECONOMIC The Council is subject to a reduction in income	Services are unable to be delivered. Potential staff redundancies. Funding of external groups is withdrawn. Potential breach of statutory duties.	Reduction in government grant. Changes to the local authority financial settlement. Economic downturn / recession. Commercial opportunities not progressed. Changing rent policies.	3	4	12	Head of Finance. All Heads of Service.	Directors. Chief Executive.	Medium Term Financial Strategy in place, including Self Sufficiency initiative. Economic Development Team promotes business offer. Participation in Business Rates Pilots. Accessing external funding where appropriate. Income collection procedures in Revs & Bens Service and Housing.	3	3	9	Increasing
12	POLITICAL / ORGANISATIONAL The Council is affected by Local Government Reorganisation	a) Change to Local Government structure in Leicestershire/East Midlands, including potential merger of district councils/county council could lead to: - Change in location for service delivery/staff - Reduction of control over local matters - Change in financial situation - Staff redundancies - Alternative political structure and governance arrangements - Changes in services to be provided and organisation culture - Deterioration in staff morale and negative effect on staff recruitment and retention - Ineffective engagement with staff, Members and residents in considering, and responding to, proposals. - Diversion of senior staff resources to respond to proposals.	Political direction to consolidate local government tiers to potentially seek greater efficiency and co-ordination	4	3	12	Chief Executive and Head of Legal and Support Services.	Chief Executive	Active engagement with political leaders and Chief Executives across the County so NWL's needs are taken into account in the proposals. Open and transparent communication of NWL position to all stakeholders. Senior management and politicians stay close to project and monitor progress. Internal and external communication plans in place, including for key decision points. External resources to be utilised in assessing any proposals.	3	2	6	Decreasing
13	POLITICAL / ORGANISATIONAL The Council is affected by the UK's departure from the EU, including a potential 'no deal' Brexit	The UK's departure from the EU, including an inability to agree the terms of the exit by 31 March 2019 could lead to: - increase in checks on goods by Environmental Officers at East Midlands Airport meaning increase in resources / costs. - uncertainty and subsequent regime around tariffs, access to markets, migrant labour and transport of goods in / out of EU could impact on businesses in district / region leading to decline in business rates and employment levels. - potential need for increased storage facilities at entry / exit points and associated increases in freight traffic, putting pressure on local infrastructure - potential withdrawal of access to EU wide IT systems (e.g. relating to imported foodstuffs) -diversion of staff resources into contingency planning.	UK departure from EU, including inability of the EU and UK govt to agree terms by 29 March 2019 of the UK's exit.	4	3	12	Chief Executive and Head of Economic Regeneration	Director of Place / Chief Executive	Engage with National Local Authority steering groups for border control at strategic & operational levels. Implement communication strategy for local businesses so technical notices are shared, with appropriate signposting. Work with LLEP and Chamber of Commerce to provide business advice and support to address changes to legislation & certification. Monitor political developments on EU withdrawal closely. Establish contingency plans after scenario based assessment of resources required for increase in checks and controls, & access to alternative IT systems. Conduct localised assessment of potential impact around East Midlands Airport. Multi-agency Leicestershire Resilience Forum risk assessment and mitigation plan to be prepared	3	3	9	Stable

Assessing the likelihood of a risk:

1 Low	Likely to occur once in every ten years or more
2 Medium	Likely to occur once in every two to three years
3 High	Likely to occur once a year
4 Very high	Likely to occur at least twice in a year

Assessing the impact of a risk:

1 Low	Loss of a service for up to one day, Objectives of individuals are not met No injuries Financial loss below £10,000 No media attention No breaches in council working practices No complaints / litigation
2 Medium	Loss of a service for up to one week with limited impact on the general public Service objectives of a service unit are not met Injury to an employee or member of the public requiring medical treatment Financial loss over £10,000 Adverse regional or local media attention – televised or newspaper report Potential for a complaint litigation possible Breaches of regulations / standards
3 High	Loss of a critical service for one week or more with significant impact on the public and partner organisations Service objectives of the directorate of a critical nature are not met Non- statutory duties are not achieved Permanent injury to an employee or member of the public Financial loss over £100,000 Adverse national or regional media attention – national newspaper report Litigation to be expected Breaches of law punishable by fine
4 Very high	An incident so severe in its effects that a critical service or project will be unavailable permanently Strategic priorities of a critical nature are not met Statutory duties are not achieved Death of an employee or member of the public Financial loss over £1m. Adverse national media attention – national televised news report Litigation almost certain and difficult to defend Breaches of law punishable by imprisonment

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	DRAFT MEMBER CONDUCT ANNUAL REPORT
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Chief Executive 01530 454500 bev.smith@nwleicestershire.gov.uk</p> <p>Head of Legal & Commercial Services and Monitoring Officer 01530 454762 elizabeth.warhurst@nwleicestershire.gov.uk</p>
Purpose of report	To receive and note the draft Annual Report and authorise the Head of Legal & Commercial Services and Monitoring Officer to make any minor amendments before being recommended to Council.
Council priorities	Value for Money
Implications:	
Financial/Staff	N/A
Link to relevant CAT	N/A
Risk Management	By receiving this information members will be able to manage risks of misconduct.
Equalities Impact Screening	N/A
Human Rights	N/A
Transformational Government	N/A
Consultees	N/A
Background papers	<p>Localism Act 2011 http://www.legislation.gov.uk/ukpga/2011/20/contents/enacted</p> <p>Current NWL Code of Conduct</p>

	Available on the Council's website and in the Constitution www.nwleics.gov.uk .
Recommendations	<p>(1) THAT THE DRAFT MEMBER CONDUCT ANNUAL REPORT 2018/19 BE RECEIVED AND NOTED;</p> <p>(2) THAT AUTHORITY BE DELEGATED TO THE HEAD OF LEGAL & COMMERCIAL SERVICES AND MONITORING OFFICER TO MAKE ANY MINOR AMENDMENTS TO THE REPORT FOLLOWING COMMENTS FROM THE AUDIT AND GOVERNANCE COMMITTEE;</p> <p>(3) THAT COUNCIL BE RECOMMENDED TO ENDORSE THE MEMBER CONDUCT ANNUAL REPORT 2018/19.</p>

1.0 INTRODUCTION

- 1.1 It is important that the work of the Audit and Governance Committee should be visible to the Authority and wider public. It is felt that the annual report acts as a helpful tool in communicating the work undertaken by the Audit and Governance Committee to the public and to Members.
- 1.2 The Committee is recommended to receive and note the draft Member Conduct Annual Report and authorise the Head of Legal and Commercial Services and Monitoring Officer to make any necessary amendments following comments from this Committee before being recommended to Council for endorsement.



MEMBER CONDUCT ANNUAL REPORT 2018-19

1. Introduction

This is the Member Conduct Annual Report of North West Leicestershire District Council's Audit and Governance Committee and covers the period from 1 April 2018 to 31 March 2019.

In addition to the responsibilities detailed in the Terms of Reference below, the Audit and Governance Committee promotes high standards of conduct by District Council Members and Members of Town/ Parish Councils in North West Leicestershire. The Audit and Governance Committee complies with the requirements of the Localism Act 2011, the regulations and the guidance provided under that legislation, together with Council's adopted Arrangements.

On 27 June 2012 Council adopted the North West Leicestershire Code of Conduct for Members which had been drafted by Members for Members. The Code incorporates all the legislative requirements under the Localism Act 2011 in relation to Disclosable Pecuniary Interests together with retaining the personal obligations in existence under the previous regime.

2. Audit and Governance Committee Terms of Reference

Membership: Ten District Councillors

Quorum: Three District Councillors

Terms of Reference during the 2018-2019 financial year:

To act as the Authority's Audit Committee, to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to be responsible for the financial reporting process. In particular:

- Consider the effectiveness of the Authority's risk management arrangements, the control environment, and anti fraud and corruption arrangements
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors
- Be satisfied that the Authority's assurance statements properly reflect the risk environment and any actions required to improve it
- Approve (but not direct) Internal Audit's strategy and plans and monitor performance
- Review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary
- Receive the annual report of Internal Audit
- Consider plans of External Audit and inspection agencies
- Monitoring of relevant reports and action plans
- Ensure there are effective relationships between Internal and External Audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted
- Approve the Council's statement of accounts, income and expenditure and balance sheet and receive the External Auditor's opinion and reports to members, and monitor management action in response to the issues raised by External Audit
- To deal with the Annual Audit and Inspection letter and in particular to:
 - consider matters raised in the annual governance report
 - agree, if necessary, to adjust the financial statements
 - approve the representation letter on behalf of the Council
 - consider and agree, if considered appropriate, any actions proposed in the annual governance report and statement
- To have delegated authority to deal with all matters relating to the Council's final accounts

On 26 February 2019 Council approved a new terms of reference for the Committee which will be implemented for the civic year commencing in May 2019.

Sub-committees of the Audit and Governance Committee

All Audit and Governance Committee members will form a pool from which members will be drawn based on their availability and the requirements of the particular Sub-committee as and when required.

Assessment Sub-committee

Assessment of complaints in accordance with the Council's Guidance and to either:

- Determine that there should be no further action
- refer the matter for full investigation
- refer the matter for other action

Review Sub-committee

Consideration of requests for a review in accordance with the Council's Guidance.

Determinations Sub-committee

To receive reports from the investigating officer and to decide either:

- to determine finding of no failure to comply with the Code of Conduct
- to determine finding of failure to comply with the Code of Conduct and impose relevant sanctions
- refer the matter for other action

3. Composition

District Councillors

All appointed by Council on 15 May 2018

Chairman: Councillor V Richichi
Deputy Chairman: Councillor D Harrison
Councillor R Ashman
Councillor J Clarke
Councillor J Cotterill
Councillor F Fenning
Councillor G Hoults
Councillor G Jones
Councillor S McKendrick
Councillor S Sheahan

Parish Representatives

The following parish councillors be appointed as Parish Representatives with effect from 7 May 2016 for the remainder of the Administration (May 2019):

Mr Peter Moults – Whitwick Parish Council
Mr David Gothard – Appleby Magna Parish Council
Mr Ray Woodward – Whitwick Parish Council
Ms Pat Thomas – Ashby Woulds Town Council

Independent Persons

The legislation requires the Council to appoint at least one Independent person who potentially advises all those involved in a Standards complaint, including the Monitoring Officer, and who must be consulted prior to the determination of a complaint.

Through an open advertising process conducted with partner authorities the Council appointed the following pool of independent persons from whom one can be drawn as and when required:

Michael Pearson
Mark Shaw
Christine Howell
Gordon Grimes
Richard Gough

The main officer support for the Committee is provided by the Monitoring Officer (Elizabeth Warhurst), the Deputy Monitoring Officer (Louis Sebastian) and the Democratic Support Officer (Rachel Wallace).

4. Meetings and Work Programme

The Audit and Governance Committee meets a minimum of four times per annum. In addition to its scheduled meetings, sub committees still meet on an ad hoc basis in order to consider and determine allegations of Member conduct. The Committee has its main work planned in advance through a Work Programme which enables it to be more proactive, strategic and focused in its approach to key issues.

5. Reporting Arrangements

The Audit and Governance Committee receives quarterly reports which have enabled Members to be reminded of the issues it has dealt with during each quarter and address any issues which this has highlighted.

6. Procedures and Workloads

(a) Dispensations

During 2017/18, there were no applications received for a dispensation from either District or Parish members.

(b) Complaints made to the Monitoring Officer under the Code of Conduct during 2018/19

Complaints made: 3

by Members of the Public	2
by Parish Councillors	0
by District Councillors	0
by Parish Clerk	0
by Council Officer	1

Complaints against:

a Parish Councillor	0
a District Councillor	3

From the above mentioned complaints:

2 complaints were resolved informally:

All of these complaints related to unprofessional conduct of councillors.

0 complaints were withdrawn:

1 complaint is at informal resolution stage:

These complaints also relate to unprofessional conduct of councillors.

(c) Complaints referred to the Standards Assessment Sub Committee

From the above-mentioned complaints: - None

From complaints received in 2017/18:- 2

(d) Members' Register of Interests

The Democratic Services Officers undertake regular checks of the Register of Members' Interests and provide advice and assistance to Parish Councils on the completion of the Registers.

(e) Advice and Training

The Monitoring Officer and Deputy Monitoring Officer continue to provide both parish and district members with advice, both proactively and on request, on member's interests and all aspects of corporate governance.

Training is also currently being provided to members on all aspects of data protection and freedom of information.

7. Policies & Procedures

The Audit and Governance Committee oversees the ethical framework of the Council including oversight of:

- the Whistle Blowing Policy
- complaints handling
- Ombudsman investigations.
- Freedom of Information and Data Protection

**Elizabeth Warhurst
Monitoring Officer**

**Councillor V Richichi
Chairman**

OUR VISION

North West Leicestershire will be a place where people and businesses feel they belong and are proud to call home

**Legal and Support Services
North West Leicestershire District Council
Council Offices, Whitwick Road, Coalville, Leicestershire, LE67 3FJ**

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