



Please ask for Brian Offiler  
Direct Line: 01246 345229  
Email [committee.services@chesterfield.gov.uk](mailto:committee.services@chesterfield.gov.uk)

The Chair and Members of Standards  
and Audit Committee

1 February 2017

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 8 FEBRUARY 2017 at 2.00 pm in Committee Room 2, Town Hall, Rose Hill, Chesterfield, the agenda for which is set out below.

AGENDA

Part 1(Public Information)

1. Declarations of Members' and Officers' Interests relating to Items on the Agenda
2. Apologies for Absence
3. Minutes (Pages 3 - 8)

Minutes of the Meeting of the Standards and Audit Committee held on 23 November, 2016.

4. External Audit Technical Update and Progress Report (Pages 9 - 26)
5. External Audit Annual Report on Grants and Returns 2015/16 (Pages 27 - 32)
6. External Audit Report - Redefining Internal Audit (Pages 33 - 60)
7. Treasury Management Strategy Report 2017-18 (Pages 61 - 92)

Chesterfield Borough Council, Town Hall, Rose Hill, Chesterfield S40 1LP

Telephone: 01246 345 345, Text: 07960 910 264, Email: [info@chesterfield.gov.uk](mailto:info@chesterfield.gov.uk)

[www.chesterfield.gov.uk](http://www.chesterfield.gov.uk)

8. External Review of Internal Audit (Pages 93 - 140)
9. Proposed New System of Internal Audit Consortium Opinion Classifications (Pages 141 - 146)
10. Summary of Internal Audit Reports Issued - January 2017 (Pages 147 - 170)
11. Local Government Act 1972 - Exclusion of Public

To move "That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 12A of the Act".

12. Review of Councillor Complaints (Pages 171 - 184)

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Randy', written in a cursive style.

Local Government and Regulatory Law Manager and Monitoring Officer

## **STANDARDS AND AUDIT COMMITTEE**

**Wednesday, 23rd November, 2016**

Present:-

Councillor Rayner (Chair)

Councillors Sarvent  
Derbyshire

Councillors Brown

\*Matters dealt with under the Delegation Scheme

20 **DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS  
RELATING TO ITEMS ON THE AGENDA**

No declarations of interest were received.

21 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Caulfield, Alexis Diouf and Tidd.

22 **MINUTES**

**RESOLVED –**

That the Minutes of the meeting of the Standards and Audit Committee held on 21 September, 2016 be approved as a true record.

23 **ANNUAL AUDIT LETTER 2015-16**

Mr Tony Crawley of KPMG presented the Annual Audit Letter for the year 2015/16.

The Annual Audit Letter summarised the outcome from the external auditor's work at the Council during 2015/16, including reference to:

- The unqualified conclusion on the authority's arrangements to secure value for money;
- The unqualified opinion on the authority's financial statements;

- The review of the Annual Governance Statement
- Confirmation of the audit fee for 2015/16 as £52,963, excluding VAT.

It also gave a summary of reports issued which included:

- Certification of Grants and Returns
- External Audit Plan
- Audit Fee Letter
- Auditors Report
- Report to those charged with Governance

It was noted that the Annual Audit Letter would be considered at the meeting of full Council in December.

**\* RESOLVED –**

That the Annual Audit Letter for 2015/16 be received.

**24 PROCUREMENT OF EXTERNAL AUDITORS**

The Director of Finance and Resources presented a report summarising the changes to the arrangements for appointing external auditors at the end of the transitional period following the closure of the Audit Commission.

The transitional arrangements, currently operated via Public Sector Audit Appointments Ltd (PSAA), had been extended to include the audit of the 2017/18 accounts.

The report outlined two options for the Council once the transitional arrangements came to an end – to make a stand alone appointment or to opt in to PSAA national procurement – and it identified the advantages and disadvantages of each option.

The report concluded that opting in to PSAA national procurement would require fewer resources and deliver a lower cost due to the bulk buying power of the sector led procurement.

It was noted that the report would be considered by the meeting of the full Council in December.

**\* RESOLVED**

That the report be noted and supported.

**25 PROGRESS ON THE IMPLEMENTATION OF THE ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2015/16**

The Internal Audit Consortium Manager presented a report on the progress made towards implementation of the 2015/16 Annual Governance Statement Action Plan, including comments from the Cabinet Member for Governance. The action plan had been approved by the Standards and Audit Committee in June 2016.

The Corporate Management Team had monitored the progress on the action plan and a summary of progress achieved at the end of October 2016 was shown at Appendix 1 to the report. Of the 12 identified actions, two had been completed, four were on track for completion and six were behind target.

The Director of Finance and Resources confirmed that he would be working with Internal Audit and the Corporate Management Team to identify how to best make progress on the action plan in order to minimise risks to the Council.

**\* RESOLVED –**

That the report be noted.

**26 PROGRESS ON THE IMPLEMENTATION OF THE AUDIT RECOMMENDATIONS IN RESPECT OF DATA PROTECTION**

The Customer, Commissioning and Change Manager reported on progress achieved in implementation of the audit recommendations in respect of data protection.

An Information Assurance Manager had been recruited and an Information Governance Framework developed. The majority of the planned information governance policies had been drafted, and it was planned that these would be formally approved in January, 2017.

Recruitment to the Information Governance Assistant post had not yet been successful. The job role and person specification was being revised

and, subject to funding being approved, would be readvertised in the New Year.

It was confirmed that Corporate Management Team members would take responsibility for the information systems within their services.

It was noted that further national guidance was awaited in respect of the new European Data Protection regulations, which were due to come in to effect in 2018.

Members were encouraged that progress was being made.

**\* RESOLVED**

That the report be noted.

**27 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC**

**RESOLVED –**

That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

**28 SUMMARY OF INTERNAL AUDIT REPORTS ISSUED 2016/17**

The Internal Audit Consortium Manager presented a report summarising the Internal Audit reports issued during the period 4 August, 2016 to 4 November, 2016 in respect of reports relating to the 2016/17 internal audit plan, including the comments of the Cabinet Member for Governance.

The Committee noted that the classification of the reliability of internal controls was 'good' in four cases, 'satisfactory' in four cases and 'unsatisfactory' in two cases (Section 106/Community Infrastructure Levy and ICT Network Security/Cyber Risk). No issues in respect of fraud had been identified.

Pursuant to Minute No. 4 (Standards and Audit Committee 2016/17), copies of the unsatisfactory reports in respect of Section 106/Community Infrastructure Levy and ICT Network Security/Cyber Risk were attached to the report.

The Economic Growth Manager updated the Committee on the progress of the implementation schedule in respect of the audit recommendations on Section 106/Community Infrastructure Levy.

The Customer, Commissioning and Change Manager updated the Committee on the ongoing work to strengthen the ICT infrastructure, working with Arvato as part of the contract review, in order to address the audit recommendations on ICT Network Security/Cyber Risk.

It was confirmed that the implementation schedule in respect of the audit recommendations on ICT Network Security/Cyber Risk would be made available to Committee Members once this had been completed.

**\* RESOLVED –**

That the report be noted.

**29 PROCUREMENTS REPORT**

The Customer, Commissioning and Change Manager gave a presentation to the Committee on how the Council's procurement arrangements were progressing.

It was noted that the shared service procurement team was in place and a Sustainable Commissioning and Procurement Strategy and a Suppliers Guide had been developed to be formally approved in the New Year. Savings had been achieved, and training via an e-learning system and for Members was scheduled for the New Year. It was planned to extend the use of the shared service team for all procurements.

The Committee was encouraged that good progress was being achieved.

**\* RESOLVED**

That the report be noted.

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# Technical update

**Incorporating the External Audit Progress Report**

**Chesterfield Borough Council**

**January 2017**

# Contents

**The contacts at KPMG in connection with this report are:**

**Tony Crawley**  
Director  
KPMG LLP (UK)  
Tel: 0116 256 6067  
tony.crawley@kpmg.co.uk

**Kay Meats**  
Manager  
KPMG LLP (UK)  
Tel: 0115 945 4485  
kay.meats@kpmg.co.uk

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This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.


The report also highlights the main technical issues which are currently having an impact in local government.

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

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact

 Medium impact

 Low impact

 For information



# External audit progress report

# External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
<b>Financial statements</b>	<p>We have concluded our work on the 2015/16 financial statements audit. We have held a debrief meeting with the Chief Accountant, the results of which will feed into our planning and risk assessment procedures for the 2016/17 audit.</p> <p>We will be holding meetings with key officers of the Authority to identify key issues that will contribute to our planning approach and further discussions with the Finance team. Following this we will issue our External Audit Plan for 2016/17 which will be presented to Audit Committee.</p>
<b>Value for Money</b>	<p>We have concluded our work in relation to the Value for Money conclusion for 2015/16.</p> <p>As part of our planning process we will be undertaking a risk assessment in relation to our Value for Money conclusion for 2016/17. We will be discussing our approach with key officers of the Authority and the results of this work will be reported in our External Audit Plan for 2016/17.</p>
<b>Certification of claims and returns</b>	<p>We have concluded our work in relation to certifying the Authority’s Housing Benefit Subsidy grant claim and the Pooling of Housing Capital Receipts Return meeting the deadline of 30 November 2016.</p>

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# KPMG resources

# Inspiring innovative government

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

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

- establishing digital identities for citizens;
- government data sharing;
- the public policy imperatives of autonomous vehicles; and
- innovations in human service delivery.

The magazine can be downloaded as a PDF from [kpmg.com/atgov](http://kpmg.com/atgov)

# Chief Accountant training events

We are pleased to confirm that we will once again be running a series of local government accounts workshops for key members of your finance team. The workshops are designed for Chief Accountants and similar staff who will be involved in and responsible for the 2016/17 close down and statement of accounts.

The workshops will be led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh.

Dates for the workshops are as follows:

- Leicester – 31 January 2017 (9:30am – 1:00pm)
- Bristol – 1 February 2017 (9:30am – 1:00pm)
- London (Canary Wharf) – 1 February 2017 (9:30am – 1:00pm)
- Preston – 9 February 2017 (9:30am – 1:00pm)
- Leeds – 15 February 2017 (1:30pm – 5:00pm)

For more information, please contact Kay Meats at [kay.meats@kpmg.co.uk](mailto:kay.meats@kpmg.co.uk).



# Technical developments



# NAO Report on Capital Expenditure and Resourcing

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

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# PSAA's Value For Money Tool

Level of impact: ● (Low)	KPMG perspective
<p>The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 3 October 2016.</p> <p>The VFM profiles have also been updated with the latest available data from the following sources:</p> <ul style="list-style-type: none"><li>— General fund revenue account budget (RA) (2016/17)</li><li>— Child and working tax credit statistics (2014/15)</li><li>— Children in low-income families local measure (2015)</li><li>— Chlamydia testing activity dataset (CTAD) (2015)</li><li>— Climate change statistics: CO2 emissions (2014)</li><li>— Collection rates for council tax and non-domestic rates in England (2015/16)</li><li>— Council tax demands and precepts statistics (2016/17)</li><li>— Fuel poverty sub-regional statistics (2014)</li><li>— Homelessness statistical release (P1E) (2015/16)</li><li>— Housing benefit speed of processing (2015/16)</li><li>— Mid-year population estimates (2015)</li><li>— NHS health check data (2015/16)</li><li>— Planning applications (2015/16)</li><li>— Schools, pupils and their characteristics (2015/16)</li><li>— Young people from low income backgrounds progressing to higher education (2013/14)</li></ul> <p>The Value For Money Profiles can be accessed via the PSAA website at <a href="http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing">http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</a></p>	<p><i>The Committee may wish to seek further understanding where their area appears to be an outlier (note that some relate to services provided by other public bodies or to general information).</i></p>

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# Local government licensing fees

Level of impact: ● (Low)	KPMG perspective
<p>Following referral from the Supreme Court of the United Kingdom, Advocate General Wathelet has given his opinion on the lawfulness of licence fees in a case involving Westminster City Council.</p> <p>The fee, which was for the grant or renewal of a 'sex establishment' licence in the City of Westminster, was made up of two parts:</p> <ul style="list-style-type: none"><li>— Part A related to the administration of the application (which is nonreturnable if the application is refused); and</li><li>— Part B (much higher) related to the management and enforcement of the licensing regime, which is refundable if the application is refused.</li></ul> <p>The Supreme Court had asked the Court of Justice of the European Union (CJEU) whether Part B constituted a "charge", which was therefore prohibited by Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market ("the Services Directive").</p> <p>Advocate General Wathelet recommended a finding to the CJEU that the Services Directive must be interpreted as precluding Westminster from taking into account, when calculating the fee due for the grant or renewal of an authorisation, the cost of managing and enforcing the authorisation scheme (part B), even if the part corresponding to that cost is refundable where the application for the grant or renewal of the authorisation in question is refused.</p>	<p><i>The Committee may wish to seek assurance that the Authority has considered this judgement and has taken action to ensure that its licencing fees are calculated in an appropriate manner.</i></p>

# CIPFA publication on understanding the financial statements

Level of impact: ● (Low)	KPMG perspective
<p data-bbox="99 714 134 856">Page 20</p> <p data-bbox="113 368 1574 428">CIPFA has published a new report titled <i>Understanding Local Authority Financial Statements</i>. This is an update of its previous publication <i>How to Tell the Story</i>.</p> <p data-bbox="113 449 1574 535">The report can be found on the CIPFA/LASAAC pages of the CIPFA website at <a href="http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements">www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements</a></p> <p data-bbox="113 556 1574 621">Further to this report, CIPFA/LASAAC undertook a consultation on proposals for the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom. The headline changes were:</p> <ul data-bbox="113 635 1574 1063" style="list-style-type: none"><li>— a new principles-based approach to narrative reporting.</li><li>— a review of the Code's provisions on going concern reporting.</li><li>— a review of accounting policies provisions in the Code.</li><li>— new disclosure on transaction costs for pension fund investments.</li><li>— narrow scope amendments to International Financial Reporting Standards.</li><li>— legislative changes.</li><li>— a new appendix including the provisions for the Code's adoption of IFRS 9 Financial Instruments (note this new appendix will apply to the 2018/19 financial statements).</li><li>— a new appendix including provisions for the Code's adoption of IFRS 15 Revenue from Contracts with Customers (note this new appendix will apply to the 2018/19 financial statements).</li></ul> <p data-bbox="113 1078 1574 1142">The details of the consultation can be found at <a href="http://www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment">www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment</a></p>	<p data-bbox="1636 368 1947 585"><i>The Committee may wish to review the CIPFA report and seek assurance that officers are aware of the consultation on the 2017/18 changes.</i></p>

# NAO report - Children in need of help or protection

Level of impact: ● (Low)	KPMG perspective
<p>In October 2016 the NAO published a report entitled <i>Children in need of help or protection</i> which may be of interest to members.</p> <p>The report finds that the actions taken by the Department for Education since 2010 to improve the quality of help and protection services delivered by local authorities for children have not yet resulted in services being of good enough quality. NAO analysis found that spending on children’s social work, including on child protection, varies widely across England and is not related to quality. Neither the Department for Education nor authorities understand why spending varies.</p> <p>The report finds that nationally the quality of help and protection for children is unsatisfactory and inconsistent, suggesting systemic rather than just local failure. Ofsted has found that almost 80% of authorities it has inspected since 2013 are not yet providing services rated as Good to help or protect children. Good performance is not related to levels of deprivation, region, numbers of children or the amount spent on children in need. Ofsted will not complete the current inspection cycle until the end of 2017, a year later than originally planned. The Department does not therefore have up-to-date assurance on the quality of services for 32% of local authorities.</p> <p>The report also notes that children in different parts of the country do not get the same access to help or protection, finding that thresholds for accessing services were not always well understood or applied by local partners such as the police and health services. In Ofsted’s view some local thresholds were set too high or low, leading to inappropriate referrals or children left at risk. In the year ending 31 March 2015 there were very wide variations between local authorities in the rates of referrals accepted, re-referrals, children in need and repeat child protection plans.</p> <p>The report is available from the NAO website at <a href="http://www.nao.org.uk/report/children-in-need-of-help-or-protection/">www.nao.org.uk/report/children-in-need-of-help-or-protection/</a></p>	<p><i>This report may be of interest to the Committee in the context of services provided by other public bodies to its population.</i></p>

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# Appendix

## Appendix 1

# 2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2016	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2017	TBC
<b>Substantive procedures</b>			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements.	July 2017	TBC

## Appendix 1

# 2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
<b>Completion</b>			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	July 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	October 2017	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments in 2015/16.	January 2017	Complete





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# Annual Report on grants and returns 2015/16

**Chesterfield Borough Council**  
January 2017



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**The contacts at KPMG  
in connection with this  
report are:**

**Tony Crawley**  
**Director**

KPMG LLP (UK)

Tel: 0116 256 6067

tony.crawley@kpmg.co.uk

**Kay Meats**  
**Manager**

KPMG LLP (UK)

Tel: 0782 482 1375

kay.meats@kpmg.co.uk

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://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 Tony Crawley, 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 ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, 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](mailto: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.

### Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £37,466,151.
- Under separate assurance engagements we certified one claim as listed below.
- Pooling of Housing Capital Receipts. This had a value of £3,284,370.

### Certification and assurance results (Page 3)

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.

Following the completion of our work, the claim was subject to a qualification letter.

The reasons for the qualification were as follows:

- A difference on the benefit software reconciliation between the expenditure as calculated by Capita and the expenditure as calculated by the subsidy program. The Council has correctly claimed subsidy on the lower amount; and
- A transcription error on one case resulting in the incorrect national insurance deduction being used in the calculation of benefits.

No such issues were identified in the prior year.

Our work on the other grant assurance engagements did not result in a qualification or amendment of the return.

No adjustments were made to either of the Council's grants and returns as a result of our certification work this year.

### Recommendations (Page 5)

We have made one recommendation to the Council from our work this year and agreed an action plan with officers.

There were no recommendations made in the previous year.

### Fees (Page 4)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £6,465, which is in line with the indicative fee set by PSAA.

Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and was £3,000 in respect of Pooling of Housing Capital Receipts.

## Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2015/16 was £9,465.

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### Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2015/16 of £6,465. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £8,620.

### Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for 2015/16 were £3,000, in line with those in 2014/15.

### Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	6,465	8,620
Pooling of Housing Capital Receipts	3,000	3,000
<b>Total fee</b>	<b>9,465</b>	<b>11,620</b>

# Recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority rating for recommendations		
<p><b>1</b> 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><b>2</b> 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><b>3</b> 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>

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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
<b>Housing Benefit Subsidy Claim</b>					
<p><b>Benefit Software</b></p> <p>The Council failed to fully reconcile benefit paid to benefit granted in accordance with the software provider's instructions.</p>	<p>Failure to fully reconcile benefit paid to benefit grant could result in errors in the subsidy claim form which go undetected.</p>	<p><b>1</b> The Council should ensure that there is a full reconciliation of future returns to system reports prior to submission for certification.</p>	<p><b>2</b></p>	<p>The Council will fully reconcile benefit paid to benefit granted in accordance with the software provider's instructions for 2016/17. This will be reviewed for completion by the CBC finance department.</p>	<p>Director of Finance &amp; Resources in 2016/17</p>



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# Redefining internal audit

**Local Government**





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# Introduction

Internal audit represents one of the key sources of assurance for local authorities throughout the country. Alongside external audit and other sources of assurance, internal audit provides management and Members with an assessment of the effectiveness of governance and control arrangements, enabling them to make informed decisions and develop action plans to deliver improvements where necessary.

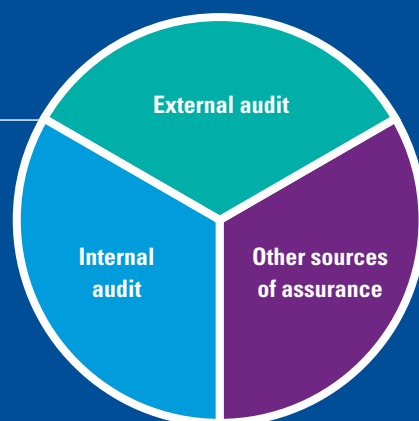
This report seeks to provide an oversight of the current status of the provision of internal audit services in the local government sector. It also highlights those areas where there is the potential to redesign delivery models in order to increase the value that internal audit providers can add to their clients.

Our findings are presented across six key themes:

- The nature of provision adopted;
- The way in which audit plans are structured and have changed over recent years.
- The adoption of assurance mapping;
- The use of data analytics;
- Internal audit staffing and skills; and
- Feedback mechanisms adopted



- 
- Service to Management & Audit Committee
  - Internal, external or co-source
  - Considers risk management, internal control and governance
  - Assurance and Consulting activity
- 



## Approach

Using publically available information published on authority websites, we have collated detailed information in relation to the volume and content of internal audit plans over a three year period.

We undertook a survey relating to the way in which internal audit operated throughout the sector. This was distributed throughout the sector and included Unitary Authorities, Single Tier Councils, Police, Fire Authorities, National Park Authorities and Passenger Transport Executives.

Based upon the results of our data collation and survey, we held interviews with a number of Finance Directors and Heads of Internal Audit in order to gain a more personal insight into the challenges facing the delivery of internal audit in the sector.

# Internal audit

## Internal audit can guard against the risk of financial savings while making its own

### Internal audit can guard against the risk of financial savings while making its own

The case for excellent internal audit is never stronger than during a period of financial austerity. "If you turn off the taps of funding, change the way you operate your governance, your control environment, your service delivery, then naturally the organisation's senior management and its members have a greater assurance need," argues Tim Cutler, Partner at KPMG. "Change gives risk, and gives a need to monitor and to provide reassurance."

His conclusion is simple: "If I was a finance director, a chief executive, a chair of audit committee, I would be thinking internal audit is increasingly important to me – it's one of my ways of monitoring my risk profile."

It is a powerful argument, and there is an irony at its heart. "Like any other part of local government, internal audit cannot be immune to financial austerity. It has got to find cost savings like everyone else," he says.

### Safeguarding the safeguarders

The result is two priorities which appear to be mutually incompatible. How can one safeguard against the risks of financial cuts if it is necessary to cut some of the safeguarding?

KPMG research suggests the issue is one being grappled with up and down the country. Over the last three years, two thirds of local authorities have seen the scale of their internal audit plan reduced as a result of funding cuts.

It is a stark reality, but not without possibilities according to Tim. "Internal audit can respond to financial challenges positively," he emphasises. "It's about focusing those audit days on the areas of greatest risk and with the greatest assurance need – targeting the work where it's going to give you the biggest bang for your buck, basically."

### Avoiding duplication

One important way to do this is through assurance mapping. This involves building a record of all the assurance sources available to local authorities – both internal and external. In this way, it is possible to reduce duplication of work, as well as to identify areas where assurance is currently lacking.

Despite the clear benefits of assurance mapping, a KPMG survey suggests its current use is limited. Only half of the local authorities surveyed said they undertook such a process, and Tim suspects the true figure could be even lower. "Our own knowledge of working with the local government sector suggests even those who said they're doing it aren't really doing it to a full extent. I don't think many would say, hand on heart, we have a fully functioning, proper assurance mapping process which is comprehensive and effective."

While he admits assurance mapping can be a complicated process, he emphasises it does not necessarily need to be so. "It's one of those how long is a piece of string things. You can keep digging until the sun goes down, and there'll always be something else out there you can find."

But really conceptually at heart it's quite simple, which is identifying the areas in which you think you have something which is relevant, make sure you've got mechanisms to communicate and coordinate and consolidate all those things, and then have your internal auditor thinking about the outputs of them."

He says this is quite a different way of working to that which has gone before. "Assurance mapping is not something that's historically been done. Internal auditors were internal auditors, that's what they did, they had a plan, they delivered work, they went on to next year's plan. External regulators did other things, advisors did other things, and we never really pulled them together."

### The need for board-level support

Changing that necessitates board-level involvement, he suggests. "Where assurance mapping happens, and where it happens most effectively, is where there's someone in the organisation at a senior level who sponsors the concept and tasks people with coordination."

That board-level understanding is equally helpful when it comes to using data and analytic techniques in auditing: another area of real potential, according to Tim. "Data analysis is a huge opportunity, very high profile within audit community. And I think the key point for senior leaders is not to write it off as something expensive which only IT specialists can do with clever systems which we don't have."

### The power of data

Simple tools like Excel are often sufficient to “flip on its head the work an auditor does, the coverage and scope that you get, and the comfort and assurance you can give,” he explains. “A traditional internal auditor will audit a particular area by using a relatively small random sample. Data analytics allows the entire dataset to be in the analysis. So you’re getting positive comfort and assurance on the entire population of data.”

Again, KPMG research suggests few local authorities are currently capitalising on this opportunity. Just seven per cent of respondents said data analysis was a routine part of their approach to internal audit. Three quarters said its use was minimal or non-existent.

Tim is keen to emphasise another key statistic from KPMG’s research: that three quarters of those surveyed said they were generally very satisfied with the service offered by internal audit. It speaks to the extent to which strong services are still being provided despite challenges. Yet the extent to which services could be strengthened further still is equally clear. And there could not be a more important time at which to do it.



# Foreword



Tim Cutler

Partner  
Local Government  
KPMG in the UK

As a firm specialising in audit services to the local government sector, we have seen first-hand the changes required to respond to the funding reductions faced by Authorities over the last five years. The impact of these changes cannot be underestimated. Even where CSR announcements are more moderate than expected, funding reductions are set to continue and further change will be necessary. In light of the result of the EU Referendum, the level of uncertainty is likely to increase at least in the short term. This creates a heightened need for vigilance over an authority's risk profile in order to ensure that there is appropriate consideration of the changing landscape of local government.

Internal audit is not and should not be immune from change in the face of austerity or transformation, but it also has a role to play in supporting the wider Authority in how it can assess the impact of change and better understand risk in the future. Internal auditors need to evolve alongside the services that they review. A key part of this is through adopting elements of best practice, be that from the local government sector or in the wider internal audit market.

As a firm which invests heavily in the evolution of audit in a multitude of sectors, at KPMG we are keen to support this change. We have produced this report to set out some of the key challenges – and opportunities – that we believe local government internal auditors are facing. The report draws upon the results of a recent survey of local government Finance Directors, Heads of Internal Audit and Audit Committee Chairs, along with interviews and online research, to visualise and better understand the way in

which internal audit teams are responding to these challenges.

The research identified some clear themes which local government internal audit teams need to focus on in the future – these themes form the structure of this report:

- Ensuring internal audit work is targeted sufficiently at the areas of greatest risk and assurance need, and is appropriately co-ordinated with other assurance mechanisms (Audit Plans; Assurance Mapping);
- Developing auditing techniques and staff skills that provide value to both management and Members, but which also maximise the efficiency and impact of audit work and the level of assurance provided through modern techniques that go beyond traditional sample testing and work in a more intelligent, informed and risk based manner (Use of Data Analytics; Staffing); and
- Ensuring that internal auditors accurately assess and understand their own performance and the way they are perceived by their clients (Feedback Mechanisms).

As authorities seek to improve their systems and processes, internal auditors must do the same. It is only by seeking to evolve themselves, as the authorities that they serve must also evolve, that internal auditors can deliver services that are of true strategic value and benefit. Key to this is ensuring that audit work is focused on those areas which will make the greatest difference and on those service areas where failures would have the most significant impact on the delivery of strategic objectives.





# Key messages

## Nature of Provision

42% 

Just under one half of all authorities have some form of in-house internal audit provision.

19% 

Only **19 percent** of authorities have a fully outsourced internal audit service. This is significantly lower than generally found in other public sectors.


39% 

Over a third of authorities use consortium internal audit providers which are seen as providing access to improved benchmarking and best practice examples.

## Audit Plans

66% 

Over the last three years, two thirds of authorities have seen the scale of the internal audit plan reduced as a result of funding cuts.


18% 

A comparison of internal audit plans over a three year period show an average reduction of **18 percent** in the number of audit days.

Risks 

**75 percent** of authorities indicated that in response to these reductions they had increased the focus on strategic risks.

## Assurance Mapping

50% 

Only **50 percent** of authorities are currently attempting any form of assurance mapping model.

5% 

**5 percent** of authorities indicated that the links between their strategic risks and the work of internal audit are weak.

All 

Despite this, **100 percent** of authorities indicated that their strategic risks are covered by the work of internal audit on at least a cyclical basis.

## Use of Data Analytics

### Data

There is an increasing focus on the use of data analytics, and the way in which this can increase audit efficiency, throughout the audit market.

### 76%

However, **76 percent** of authorities indicated that they have only minimal or no usage of data analytics within their current internal audit provision.

### Cost

Whilst there are initial costs incurred in the development of data analytics, the long term benefits are expected to exceed this.

## Staffing

### IT

Only **43 percent** of authorities indicated that their internal audit teams included in-house IT specialists, with **16 percent** had no access to such skills.

### HoIA

All of the authorities surveyed confirmed that their Head of Internal Audit possessed qualifications relevant to their role.

### 43%

**43 percent** of authorities indicated that their internal audit staff consisted of a minimum of **50 percent** qualified professionals

## Feedback Mechanisms

### 77%

Over three quarters of authorities are still to undertake the mandatory external assessment of compliance with the Public Sector Internal Audit Standards.

### Time

Many authorities are delaying the assessment to allow change to embed. The deadline for completing this is 31 March 2018 so it may be at risk of being missed if not scheduled soon.

### 89%

Customer satisfaction surveys undertaken by internal audit providers indicate that at the vast majority of authorities the service provision is seen as highly satisfactory.

# Nature of provision

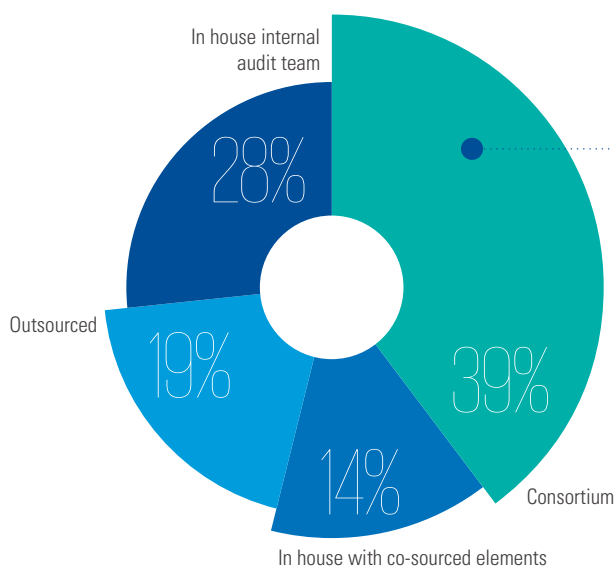
Two thirds of the respondents to our survey indicated that their internal audit service was by way of either an in-house team or a consortium (this includes both shared in-house audit teams and audit teams that have been transferred out to purpose built external companies providing services to a number of local authorities). These delivery models help to ensure that audit staff have a detailed understanding of the way in which local authorities work as well as the specific operations of the authorities that they serve. In contrast however, their ability to benchmark performance against the larger public sector practice, and specifically against commercial enterprises, can be limited due to the size and nature of their client base.

Less than one fifth of respondents used a fully outsourced model with this being more common at small authorities and police bodies. This represents a significant difference to many other parts of the public sector, for example the Health and Education sectors, where there is typically a significantly higher reliance upon outsourced services. To some extent this may reflect the scale of traditional local authority plans and the need to maintain sufficient in-house capacity in the internal audit team to deliver this volume of days. Where an outsourced model is adopted we generally see a reduced scale of audit, but one which is highly focused upon the risks facing the organisation to maximise the value of the resources allocated.

## Audit Committee Question Prompts

- How can you best structure the provision of your internal audit service to provide the required level of independent technical expertise?
- Are there any areas of specific technical expertise which are not currently covered by the internal audit staff skill mix?
- How does the authority ensure value for money is achieved when procuring internal audit services and any additional expertise required?

## Provision type



"From the Council's perspective the biggest benefit of this is the synergies that are created and the facilitation of knowledge sharing and benchmarking."



In relation to a shared service with smaller entities one council stated that "the main gain is for the other bodies as they gain access to a larger service. There is a benefit of gaining assurance over the use of monies granted by the Council to such entities though".



Our survey results indicated of those authority's using a co-sourced model, 88% were securing their IT expertise through outsourcing.

# Audit plans

Over the last 6 years, the local government sector has borne a significant portion of the savings required as a result of the central spending reviews. This has necessitated significant changes in the way that authorities operate and the way that they deliver services. Internal Audit has not been immune to these changes and the level of funding available to deliver the audit programme has frequently been cut back.

In many cases this funding reduction has necessitated a change in how internal audit is delivered. Potential responses included:

- Reducing the staff cost base – This creates a risk that either the resource base will be insufficient to deliver the audit programme, or that staff are not sufficiently experienced to provide real value.
- Reducing the extent of the audit plan –

Whilst this allows for the level of work required to be reduced in line with savings in staff costs, it also reduces the breadth of areas covered.

- Designing more efficient delivery models – This allows for the reduction in assurance to be minimised, but it can take significant time and initial investment in order to develop such models.

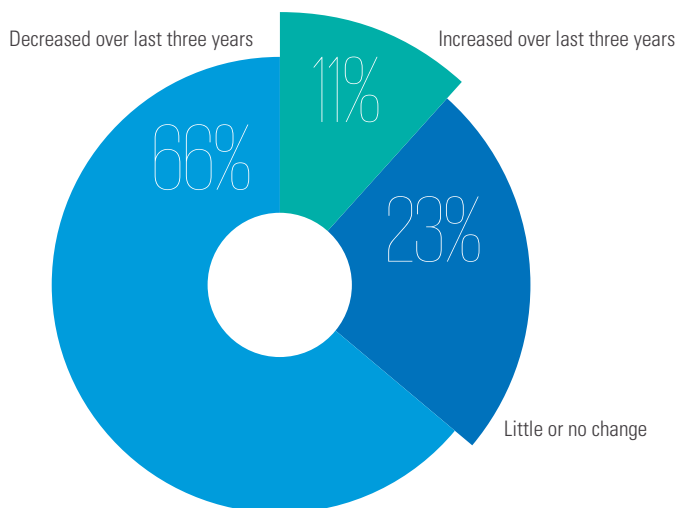
The vast majority of authorities have, at least in the short term, opted to accommodate the required level of savings by way of reducing the size of the audit plan. This approach need not have a negative impact on the overall level and quality of assurance provided to the audit committee if it is combined with a more risk based focus when planning the audit work for the year.



Based upon our web research, the average number of total internal audit days fell by 8% from 2013/14 to 2014/15 and a further 10% from 2014/15 to 2015/16.

Despite this, the average number of days per £'m of revenue has increased slightly from 3.4 to 3.6 over the same period. This may be representative of the speed with which funding has been reduced and the ability of authority's to respond at the same rate.

## Volume of work



The majority of respondents (63%) indicated that they did not expect any further reduction in the immediate future. Just over one quarter (28%) however expected further significant reductions whilst only 9% expected an increase in the volume of work.

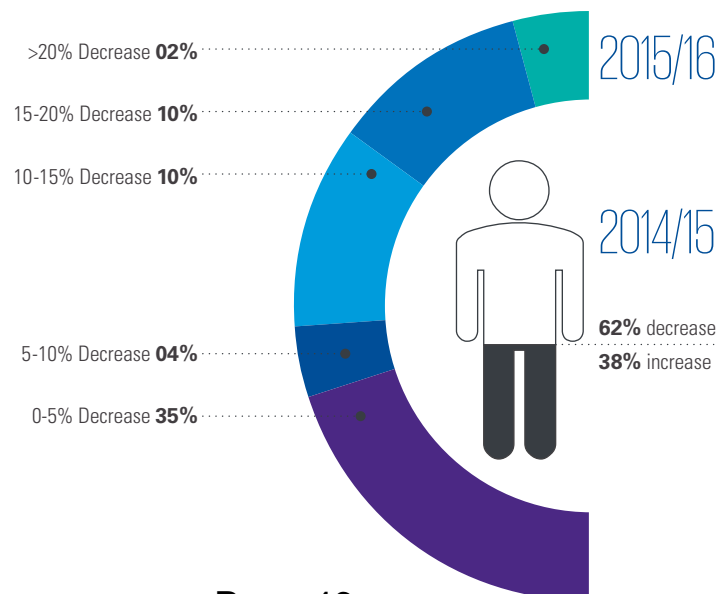
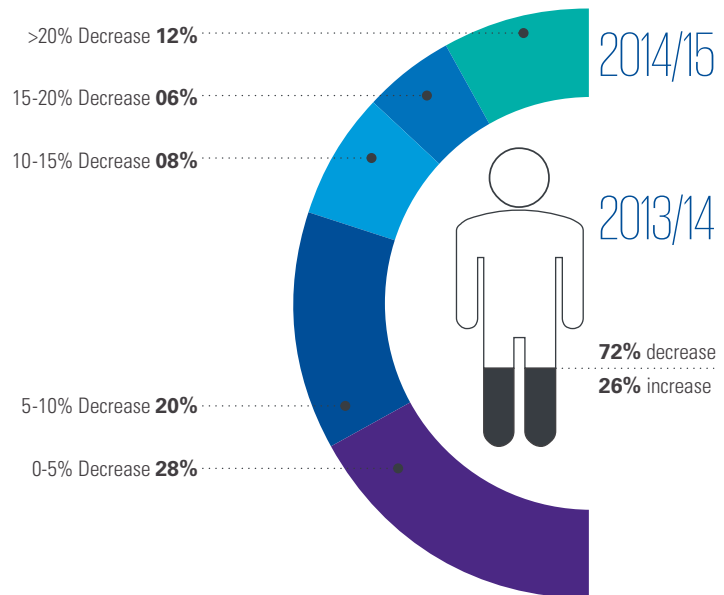
## Audit Plans cont...

Whilst the average reduction in the number of days included in internal audit plans over the last two years has been 8% and 10% respectively, the impact upon individual authorities has varied greatly. From 2014/15 to 2015/16, 22% of authorities saw a reduction of over 10% whilst in the prior year 25% saw this level of reduction. In contrast, over a quarter of authorities have increased their audit plans in at least one of these years.

### Audit Committee Question Prompts

- Has any reduction in the scale of the internal audit plan impacted upon the quality and extent of assurance provided?
- Are your strategic risks adequately reflected in the internal audit plan?
- Can your internal audit service deliver improved efficiency and more targeted audit focus?
- How is the authority going to accommodate further funding reductions in relation to their impact on the internal audit service?

## Change in audit days



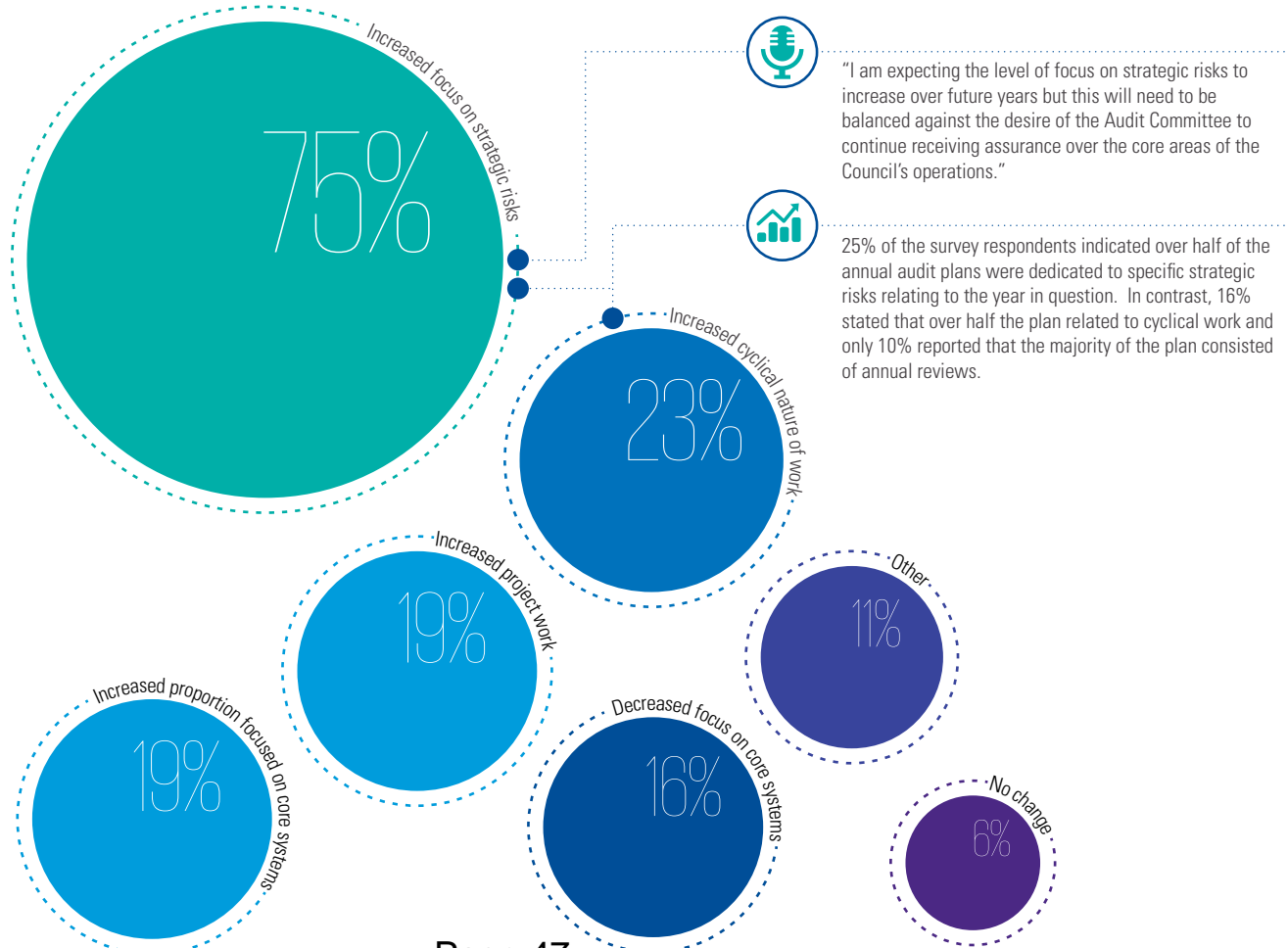
As indicated earlier, the funding reductions imposed upon local authorities has generally resulted in a reduction in the size of annual audit plans. In order to accommodate this, authorities have also been required to reassess the focus of internal audit work in order to maximise the value of the assurance they are receiving.

The way in which individual authorities have sought to reshape their internal audit services has differed depending upon the willingness to reduce the extent of assurance provided over individual areas of operation. The vast majority of authorities indicated that at least part of this response related to increasing the focus of the internal audit

service on the key strategic risks facing the organisation.

This change allows for the increasingly limited resources to be focused upon those areas where assurance is needed most to ensure that strategic objectives are delivered.

## Reshaping internal audit plans



# Assurance mapping

Whilst internal audit represents a key source of assurance to Members and management, it is not the only source of assurance available. Indeed, there are a wide range of assurance sources available to authorities including both internal and external processes, controls, and entities. In order to achieve greatest value for money, there is a need to understand the various assurance sources that are in place and how they interact with each other.

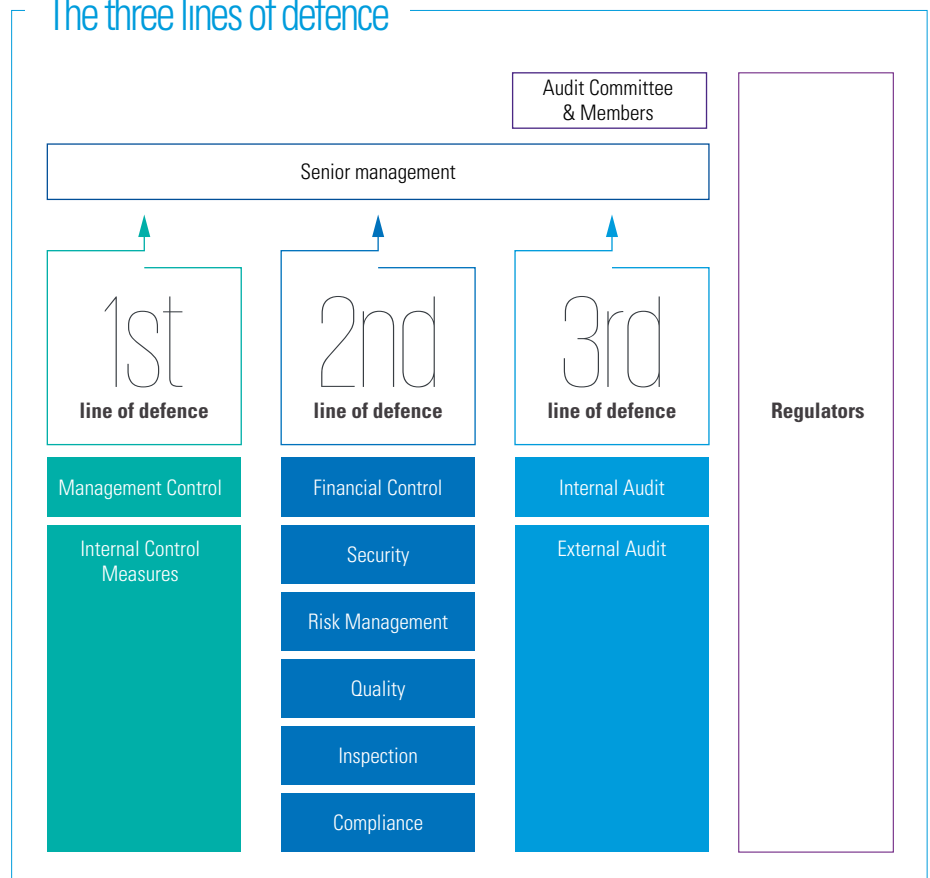
The “Three Lines of Defence” model helps identify the range of assurance sources available to an entity. An Authority’s own internal controls form the first line of defence against risk. The effectiveness of these controls is then subjected to monitoring by the second line of defence consisting of the authority’s internal quality control and compliance processes. The third, and final, line of defence is Internal Audit and can offer independent assurance over both the first and second lines of defence.

Effective assurance mapping is essential to ensuring that management and Members are aware of the way in which they are receiving assurance in relation to key areas of operations and over significant risks. In order to achieve this there needs to be an effective risk management process in place upon which assurance mapping can be built.

This delivers a clear understanding of those risks which are of greatest importance and in relation to which there is a need to monitor assurance processes. Having developed this, authorities can then begin to identify and record the assurance which they receive over these risks.

Despite the significant benefits of assurance mapping, only half of the authorities surveyed indicated that they undertook any form. Further to this, of those that did, a quarter failed to use it in the development of the internal audit annual plan.

## The three lines of defence





As a result of this, there is a risk that audit resources are being inefficiently directed to those service areas where the authority has already established adequate assurance processes from other sources.

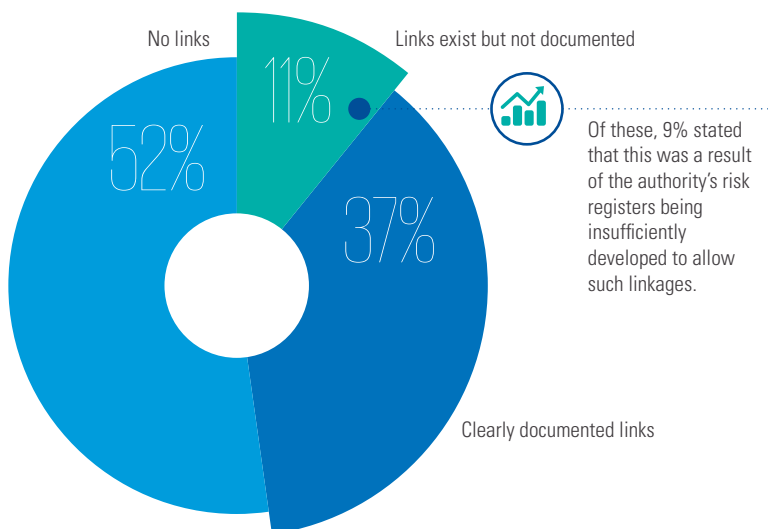
An example of this is housing benefits. Whilst internal audit could undertake an in-depth review of the benefits service, including sample testing of claims, many authorities will already have a quality review team covering this area. As a result, internal audit may be more appropriately instructed to assess the adequacy of the work undertaken by the quality team. This follows the three lines of defence model, with the third line providing assurance over the second, which in turn provides assurance over the first.

Coupled with assurance mapping, individual elements of the internal audit plan should be linked to key strategic risks so as to make it clear how the service is aligning with the authority's assurance needs. Whilst 89% of survey respondents stated that such linkages existed in their audit plans, only 37% confirmed that these links were clearly documented. The majority of those authorities with no such linkages indicated that this was a result of failings in the risk register. Such weaknesses also undermine the ability to develop effective assurance mapping.



## Assurance mapping cont...

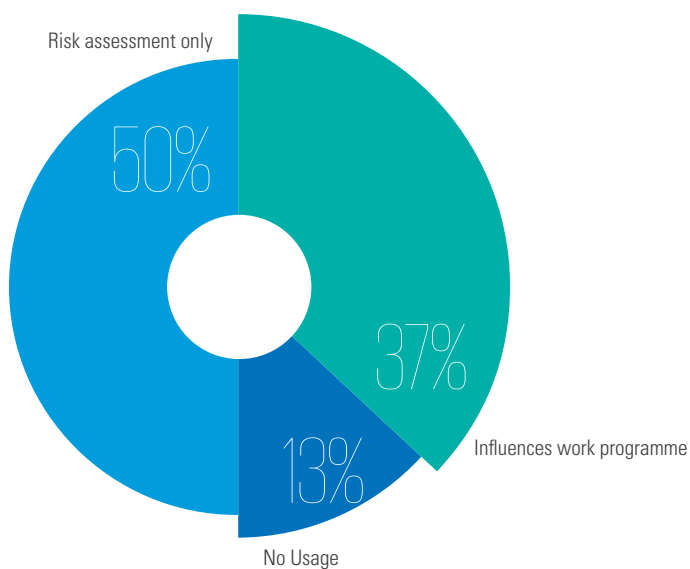
### Links to key risks



### Audit Committee Question Prompts

- How effective are your internal risk management processes and to what extent do you understand the various sources of assurances available to you?
- Have you established a formal assurance mapping process which is used to identify any assurance gaps and ensure that internal audit is focused in the most effective manner?
- Does the internal audit annual plan take account of the other sources of assurance which are open to the authority?
- Are individual internal audit reviews aligned to the authority's key areas of strategic risk?
- Are you aware of the various assurance sources operating within the authority and do you receive appropriate reports as to the results of their work?

### Assurance mapping



# Use of data analytics

Recent years have seen a significant increase in the focus on the use of data analytics throughout both internal and external audit provision. This has seen a shift away from large volumes of sample testing in favour of intelligent analysis of complete populations in order to identify those areas which, based upon an understanding of expected business practices, warrant detailed investigation.

We believe that the adoption of data analytics enables an appropriate balance to be secured between the value of audit outputs and the level of audit effort required to deliver those outputs. This is a balance that has historically been challenging to achieve.

The main benefits of increased use of data analytics include:

- **Precision** – data analytics provides for a higher level of precision in audit procedures which in turn leads to more valuable insights.
- **Integration** – through integrating data collection routines and processes into an Authority’s existing systems the level of disruption is reduced.
- **Trends** – Access to a broader range of data facilitates the identification of meaningful patterns and provides actionable intelligence that matters to an Authority’s business.
- **Insights** – Detailed analysis can uncover the business reasons behind issues and isolate the root cause of outliers and anomalies.

The infographic is set against a teal background and is divided into two columns: 'Historical' and 'Future', connected by a double arrow. Each column lists auditing practices with associated icons.

Historical	Future
auditing standard that was a paper-driven manual audit	technology enables 100% testing
analysis snapshot of select 200+ transactions in a data population	full populations
sample analysis with limited transaction coverage	pattern assessments data analysis of outliers + anomalies
	benchmarking internal • industry • peer
	identify process improvements business performance trends

## Use of data analytics cont...

Despite the additional value that can be gained through the use of data analytics, only 7% of survey respondents indicated that it had become a routine part of their approach to the delivery of internal audit. Over three quarters of responding authorities indicated that the use of data analytical procedures was minimal or non-existent.

For many authorities, there are two key challenges to the adoption of data analytics as an alternative to more traditional auditing techniques. The first of these is the experience and skills of current audit staff in relation to such procedures. Data analytics represents a significant change in the way that audit services are delivered. As a result, additional training is likely to be required.

The second key challenge is that there is an initial investment required in order to develop the data collection and analysis processes which underpin this model of delivery. This is especially true in relation to older information systems which may not enable the large scale extraction of data in a user friendly format.

There is, however, some degree of misconception in relation to data analytics around the idea that it requires costly new software tools. Whilst purpose built software tools are available, and can greatly facilitate the

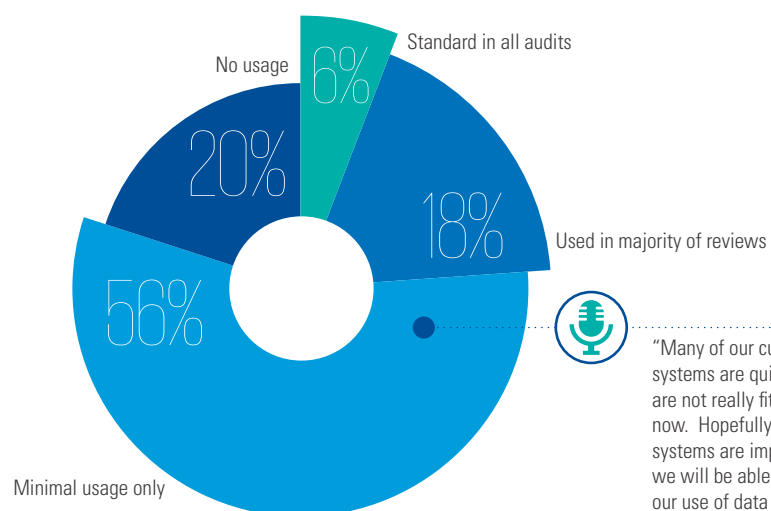
analysis of data, it is also possible to make use of software packages that authorities already have access to, such as Microsoft Excel. By providing additional training on the more complex functions of these software packages, authorities can begin a wider adoption of data analytics without the need to invest in costly software.

Whilst the challenges facing full implementation of data analytics may require initial investment, this should be viewed in light of the long term benefits that will be secured. The adoption of data analytics not only offers a greater level of assurance, but provides the opportunity to increase efficiency and ensure that audit resources are focused upon those areas where the highest risk of failings arises.

### Audit Committee Question Prompts

- What barriers exist to the successful implementation of data analytics at the authority and how can these be removed or overcome?
- Which areas of the authority's operations do you feel could benefit most from the adoption of data analytics as a model for the delivery of internal audit?
- How could the adoption of data analytics be used to increase the long term efficiency of the internal audit service and maintain the level of assurance provided despite funding reductions?

## Use of data analytics



"Many of our current finance systems are quite old and are not really fit for purpose now. Hopefully as new systems are implemented we will be able to increase our use of data analytics."

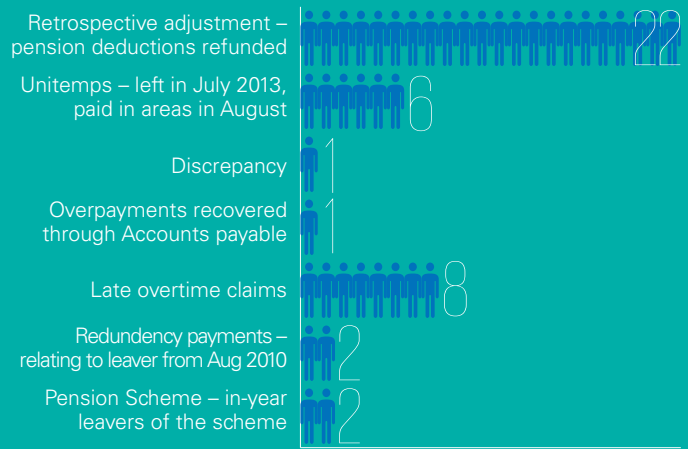
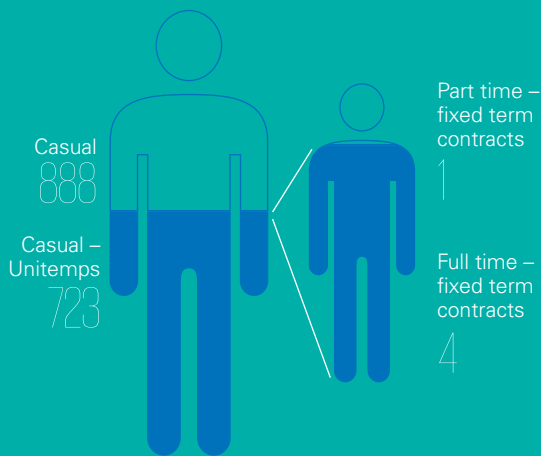
# Case study - Data Analytics

## Case Study - Payroll Expenditure

Data analytics routines can provide detailed assurance over the effective operation of systems and controls (such as those around starters and leavers). This can be achieved through the comparison of related data sets in order to identify inconsistencies.

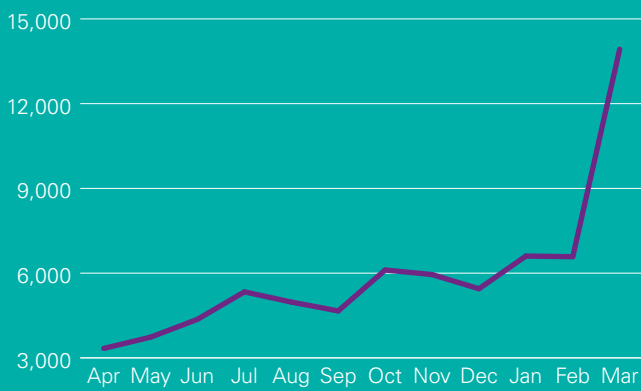
Employees on HR staff list but not paid in the year **1,616**

Employees on transaction file as paid but not on HR master list **42**



## Case Study - Journals

Through the analysis of large amounts of data, valuable insights can be gained into the financial activities of the organisation.



Journals posted on weekends and bank holidays	
Total number of journals	7,396
Total debit value of journals	£4,412,019,839.78
Total number of journals posted by users on weekends and bank holidays	23
Journals posted on weekends and bank holidays as a proportion of total journals (by number)	0.30%
Total value of journals posted by users on weekends and bank holidays	£5,051,889.92
Journals posted on weekends and bank holidays as a proportion of total journals (by total value)	0.10%

# Staffing

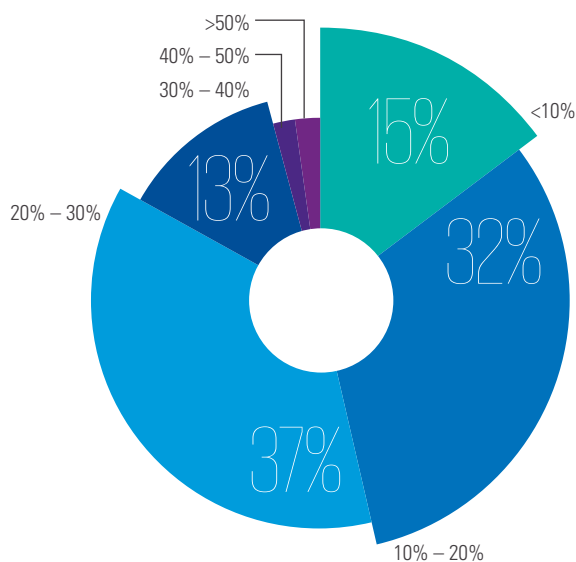
The size of internal audit teams is relatively small, with 47% of authorities indicating that the internal audit team consisted of five or fewer full time equivalents and only 15% indicating that the team consisted of over ten. This reflects, at least to some extent, the prevalence of in-house internal audit teams which are dedicated to the provision of services to single authorities.

Despite the small sizes of some audit teams, the split between management and non-management appears to be at an appropriate level, with only 17% indicating that over 30% of the staff were in management positions. There were, however, 2% of respondents who indicated that over half of the internal audit team were in a management position. This related to very small internal audit teams, however.

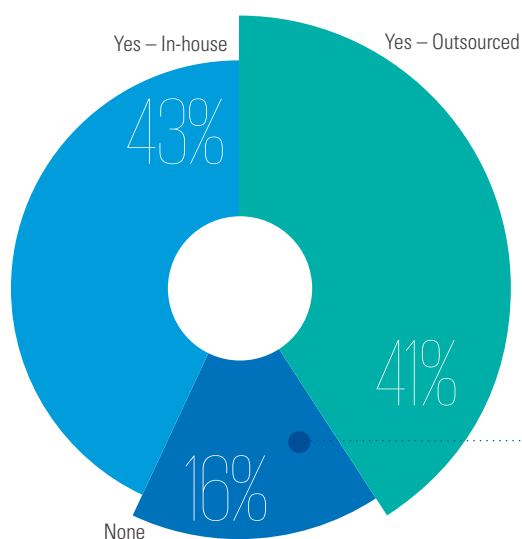
Maintaining an appropriate split between management and non-management will form an essential part of controlling staff costs and responding to funding reductions. It is, however, essential to maintain adequate management resource to ensure efficient oversight and governance.

Only 43% of respondents indicated that they had access to in-house IT expertise to support the completion of IT related audits. Just under one fifth of respondents stated that they had no IT expertise in any form. This is an area of significant risk given the increased reliance that authorities are placing upon IT systems and the growing prevalence of large scale integrated systems. In order to maintain the level of assurance required, authorities are likely to need to address this skills shortage within the near future.

## Management proportion



## IT audit expertise



"We don't have any IT specialists in-house and so far none of our IT audits have been sufficiently technical to require them."



Based upon our survey results, all Heads of Internal Audit have a relevant qualification to support the delivery of their role, with 67% holding CCAB membership. This is in line with our expectation and represents a clearly positive message for the sector.

In addition, the level of qualifications held by audit team is also relatively high, with 43% of authorities indicating that over half of the audit team consists of qualified accountants. There are still, however, a number of authorities who indicated that only a minority of staff were formally qualified.

The challenge for authorities moving forwards will be two-fold:

- It may be increasingly difficult to maintain this level of qualification as ongoing funding reductions continue to create the need to shrink staff costs.
- The drive towards increase risk based audit, and the adoption of data analytics, will result in changes to the desired skill mix in internal audit teams.

The effective management of these factors will be key to ensuring that the quality of provision is maintained.

From our interviews, we identified that many authorities do not currently operate a qualification programme on an ongoing basis. This reflects the fact that many of the internal audit teams have been consistent in terms of membership over recent years (subject to reductions in staffing levels). This is likely to need to be reconsidered in future years as authorities seek to recruit new staff, or train existing staff, in order to facilitate changes in the nature and focus of work.

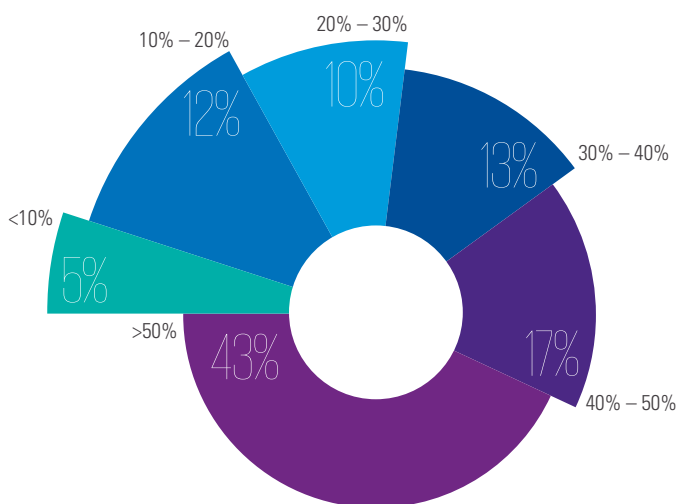
Internal audit providers will need to carefully monitor and assess both the existing skills mix and the required areas of expertise in order to ensure that they are capable of meeting the demands of individual authorities and delivering the level of service required.

“Many staff currently only have an AAT qualification which they have allowed to lapse. I would expect this to change though as we move to a more risk based approach and the maintenance of qualifications becomes more critical.”

#### Audit Committee Question Prompts

- How are you ensuring that internal audit staff are appropriately qualified and receive the right level of training going forward to support the delivery of the internal audit plan?
- How does the internal audit provider identify the required level of training and the appropriate staff mix?
- What areas of specialist skill are required to deliver your internal audit plan and are you confident that such skills are available?
- To what extent is the authority reliant upon automated controls incorporated within IT systems and what level of assurance are you receiving in relation to these controls?

#### Qualified staff proportion



# Feedback mechanisms

The Public Sector Internal Audit Standards (PSIAS), effective as of 1 April 2013, require that internal audit providers are subject to external assessment of their compliance with those standards. This assessment should be undertaken at least once every five years with action plans being developed to address any identified area of deficiency. At the time of conducting our survey, however, only 23% of respondents had completed the assessment.

This assessment is a valuable indicator of the quality of the internal service and provides a clear indication of any individual areas where further improvements could be achieved. As such, we would expect it to be seen as a valued tool for internal audit providers, audit committees and management. Despite this, the result of our survey and interviews indicated that this was not always true and that some authorities were questioning the benefit to be obtained in comparison to the costs involved.

In contrast to this, our view is that when properly structured and undertaken, the external assessment will provide stakeholders with a detailed evaluation of the internal audit service. This will allow for any deficiencies in PSIAS compliance to be identified and appropriate action plans developed. Compliance with the PSIAS is not just a formality, it is a key driver towards ensuring a high quality of provision and the delivery of an internal audit service that adds real value to authorities' control environments.

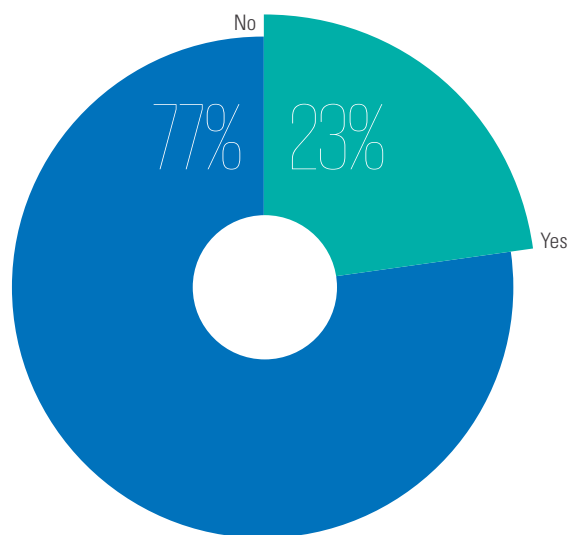
In order to ensure that the external assessment is of real value to individual authorities it is essential that it be:

- **Comprehensive** – In order to gain greatest benefit, the review should consider all elements of the PSIAS requirements and provide an honest assessment of the extent to which compliance has been achieved.
- **Pragmatic** – The recommendations coming out of the assessment must be workable and reflect the way in which the authority wishes to operate. There is no “one shape fits all” approach to internal audit and as such the external assessment must remain flexible.
- **Independent** – The assessment must be free of any bias (including perceived bias) to ensure that it provides the audit committee and management with appropriate and reliable assurance over the way in which the internal audit service is operating.

Of those authorities who have completed an assessment, 77% have opted to undertake this through a reciprocal arrangement consisting of a group of internal audit providers reviewing each others procedures. We understand that CIPFA have confirmed that this is an acceptable approach, although our view is that other approaches may provide more robust challenge. A key factor to consider here is the size of the pool of providers involved in the review. Where this is limited in number there is an increased risk that, at least from a perception basis, the desired level of independence may be eroded.

Of those authorities that have undertaken an external assessment, two thirds reported that the results indicated that no elements of non-compliance had been identified.

## External assessment undertaken





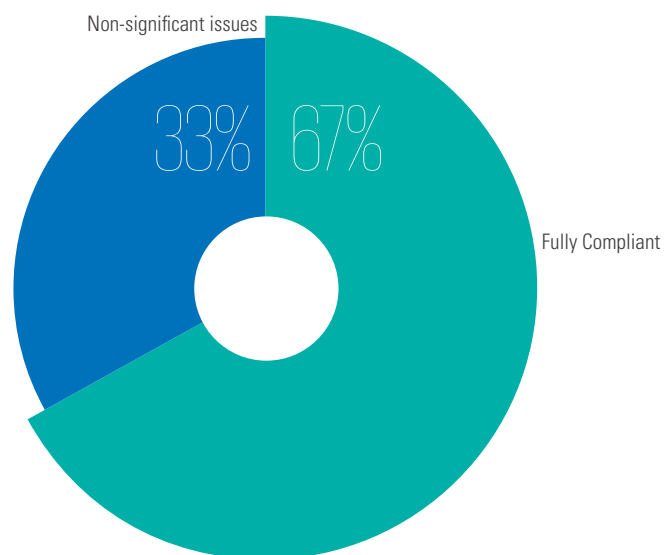
The remaining authorities indicated that only minor areas of non-compliance were identified. Given our own experience of local authority internal audit services, we would have expected a higher rate of non-compliance, especially during the first few years of PSIAS application. Whilst this is a welcome indication of the general high quality of internal audit provision in the sector, it is possible that the low number of issues identified is indicative of the assessments being undertaken with a lower level of critical scrutiny than we may have expected.

The identification of areas on non-compliance, especially in the first external assessment, should not be seen as indicative of a fatal flaw in the internal audit service. We would anticipate that some non-compliance would exist at many authorities and that the external assessment provides a summary of these so that appropriate actions can be taken.

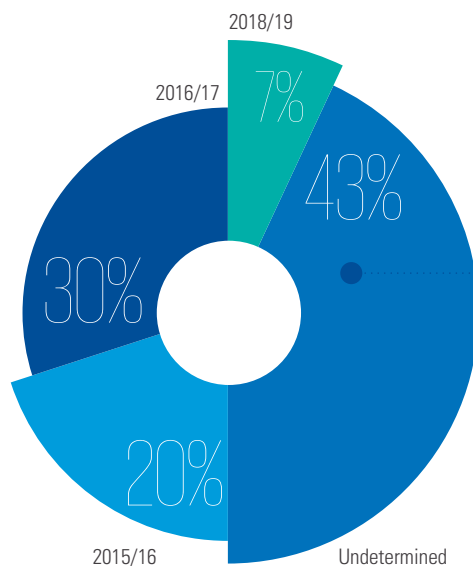
Of those authorities who had not undertaken an assessment, 43% had not yet determined when it will be undertaken. This in part reflects a desire to allow for new processes to become more fully embedded before they are formally tested.

Whilst this is an understandable desire, it is essential that authorities determine a timescale for the completion of these external assessments to prevent them being delayed indefinitely. Authorities are now into the third year of PSIAS application, and there is only a limited amount of time left in order to undertake the assessment in line with the required frequency of once every five years.

### Results of assessments



### Timing of future assessments



"We are delaying the external assessment as long as possible in order to allow us to fully embed the requirements of PSIAS but also because we are unsure as to how much benefit will be obtained"

## Feedback mechanisms cont...

The formal external assessment of PSIAS compliance is only one measure of the effectiveness of the internal audit service and, to some extent, does not directly consider the way in which the service is viewed by the authority it serves. In order to gain an understanding of performance in this area, 89% of the survey respondents indicated that they undertake periodic customer satisfaction surveys.

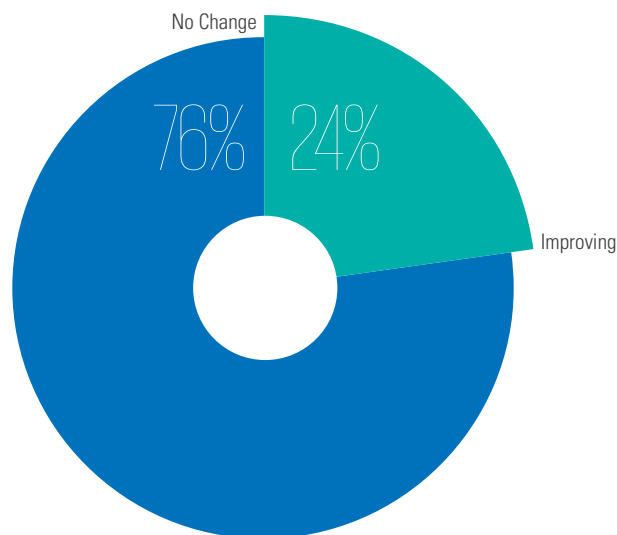
Whilst the exact nature of these surveys will differ between authorities, the aim is to gain an understanding of the way in which the internal audit is perceived and the extent to which it is meeting the expectations of its "customers". One of the key challenges however, is how to ensure the objectivity of responses so that the internal audit service can develop appropriate improvement plans.

Our survey results indicated that the level of satisfaction is currently very high, with 89% reporting that the average outcome was "very satisfied" and no authority indicating overall dissatisfaction.

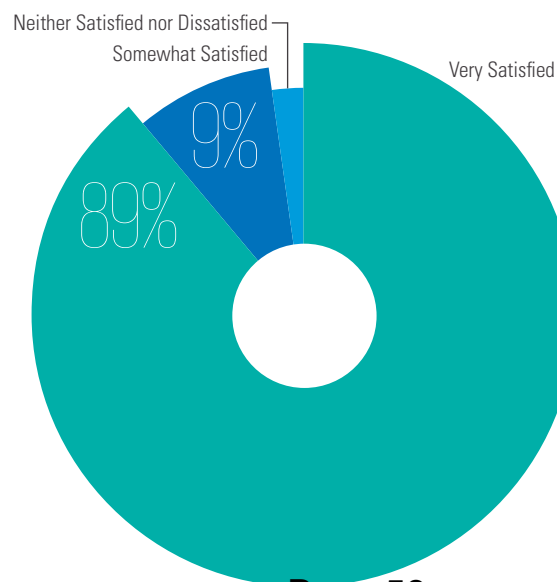
Our survey results also indicated that the levels of satisfaction have improved over the last three years for just under one quarter of authorities, with the remaining respondents indicating no change.

This improvement in satisfaction ratings may reflect the increased focus upon strategic risks resulting in officers feeling that the internal audit service provided a more relevant and valuable level of assurance. By focusing directly on these key risk areas, internal audit is more able to support officers' work and offer information which is of greater immediate utility and import

### Progress made



### Level of satisfaction



One council indicated that they were reducing the use of customer satisfaction surveys indicating that "the results are not of great use as they are frequently based upon personal preferences rather than objective measures."



### Audit Committee Question Prompts

- What do you want to achieve through the external assessment of your internal audit service's compliance with the Public Sector Internal Audit Standards?
- When will this assessment be undertaken and are you comfortable with that timing?
- How will you ensure that the external assessment provides the authority with an output of real value?
- Are you happy that the external assessment is being undertaken in an independent and object manner?
- How will you ensure that enhancements recommended as a result of the external assessment are appropriately implemented and that these result in service improvements?
- How can the authority collect, and react to, customer satisfaction data in a manner which facilitates constant improvement in service delivery?

# Tim Cutler

**Partner**

**Local Government**

**t:** + 44 (0)161 246 4774

**e:** tim.cutler@kpmg.co.uk

# Darren Gilbert

**Director**

**t:** + 44 (0)292 046 8205

**e:** darren.gilbet@kpmg.co.uk

# Adam Bunting

**Manager**

**t:** + 44 (0)117 905 4470

**e:** adam.bunting@kpmg.co.uk

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## **For publication**

### **Treasury Management Strategy 2017/18**

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Meeting:	Council Standards & Audit Committee
Date:	23 <sup>rd</sup> February 2017 8 <sup>th</sup> February 2017
Cabinet portfolio:	Finance & Governance
Report by:	Director of Finance & Resources

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## **For publication**

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### **1.0 Purpose of report**

- 1.1 To approve the Treasury Management Strategy Statement and the Annual Investment Strategy Statement for 2017/18.
- 1.2 To approve the Minimum Revenue Provision (MRP) policy for 2017/18.

### **2.0 Recommendations**

- 2.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.
- 2.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators be approved.
- 2.3 That the Minimum Revenue Provision policy is approved.

### 3.0 **Background**

- 3.1 The key aims of the CIPFA 'Code of Practice for Treasury Management in the Public Services' (the Code) are:
- a) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
  - b) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities;
  - c) They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ.
- 3.2 The Council first adopted the Code at its meeting on the 22<sup>nd</sup> October 2003. The Council is required to approve the Treasury Management and Investment Strategies and reaffirm its adoption of the Code before the start of each financial year.
- 3.3 CIPFA amended the Code in 2011 to take account of developments in the financial market place and the introduction of the Localism Act.

### 4.0 **Capital Programme & Financing**

- 4.1 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that provides a framework for self regulation of capital spending; in effect allowing councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable.
- 4.2 To facilitate the decision making process, the Code requires the Council to agree and monitor a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management.

### 4.3 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle.

<b>Capital expenditure £000</b>	<b>2015/16 Actual</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
<b>General Fund</b>	8,355	5,268	8,182	3,689	4,242
<b>HRA</b>	18,125	14,500	16,500	16,500	16,500
<b>Total</b>	26,480	19,768	24,682	20,189	20,742

The table below shows how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Capital expenditure £000</b>	<b>2015/16 Actual</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
<b>Financed by:</b>					
Capital receipts (GF & HRA)	3,336	3,568	6,180	5,271	4,051
Capital grants & contributions	5,651	2,933	3,896	2,254	2,700
Revenue Reserves & HRA Major Repairs Reserve	16,340	13,267	13,214	12,664	13,991
<b>Net financing need for the year</b>	<b>1,153</b>	<b>-</b>	<b>1,392</b>	<b>-</b>	<b>-</b>

### 4.4 The Council's Borrowing Need - Capital Financing Requirement

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and measures the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and

therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below. These projections exclude the loan from Sheffield City Region LEP for the £2.4m Waterside project.

£000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
<b>Capital Financing Requirement</b>					
CFR – General Fund	14,450	12,371	13,361	12,761	7,524
CFR – HRA	136,405	134,359	132,343	130,358	128,403
<b>Total CFR</b>	<b>150,855</b>	<b>146,730</b>	<b>145,704</b>	<b>143,119</b>	<b>135,927</b>
<b>Movement in CFR</b>	<b>(1,254)</b>	<b>(4,125)</b>	<b>(1,026)</b>	<b>(2,585)</b>	<b>(7,192)</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	1,153	-	1,392	-	-
Less MRP/VRP and other financing movements	(2,407)	(4,125)	(2,418)	(2,585)	(7,192)
<b>Movement in CFR</b>	<b>(1,254)</b>	<b>(4,125)</b>	<b>(1,026)</b>	<b>(2,585)</b>	<b>(7,192)</b>

#### 4.5 Affordability Ratios

**Ratio of financing costs to net revenue stream** shows the trend in the cost of capital based on the programme against the net revenue stream (i.e. council tax for the General Fund and rent income for the Housing Revenue Account). The estimates of financing costs include current commitments and the proposals in the budget report.

%	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	4.62	5.60	4.90	4.32	3.09
HRA	18.58	18.59	18.88	18.70	17.85

The General Fund ratio increases in 2016/17 which reflects the prudential borrowing required to finance the rebuild of Queens Park Sports Centre and the Town Hall restack but this reduces in future years as capital receipts are set aside to repay that debt. The HRA ratio is fairly static due to both reducing financing costs and a reducing revenue stream as a result of the 1% per annum rent reduction requirement.



**Estimates of the incremental impact of capital decisions on the Council Tax and housing rents** identifies the revenue costs associated with proposed changes to the capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans.

**Incremental Impact of Capital Investment Decisions on Band D Council Tax**

£	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	0.30	1.01	1.22	2.87

The capital programme includes a project to reconfigure the Town Hall which when completed will provide an opportunity to generate rental income to support the revenue budget.

**Incremental Impact of Capital Investment Decisions on Housing Rent Levels** identifies the trend in the cost of proposed changes in the housing capital programme report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

£	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly Housing Rent Levels	0.01	0.06	0.11	0.20

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

**4.6 Minimum Revenue Provision**

The Local Authorities (Capital Finance & Accounting) (England) Amendment Regulations 2008 require local authorities to agree a policy on the calculation of the Minimum Revenue Provision (MRP) for each financial year. The MRP is the amount the authority has to provide for the repayment of debt. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it

is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR (option 2);  
This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.  
From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:
- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

Prudential borrowing will continue to be used for invest-to-save type schemes, even where assets lives might be quite short, provided the anticipated efficiency savings are sufficient to cover the MRP charges i.e.the investment is self financing.

The Council has the discretion to determine the debt repayment policy for the HRA. The Policy from April 2013 is to set aside a provision for debt repayment based on 1.5% of the Capital Financing Requirement. This policy will be reviewed in later years as the Business Plan develops.

## 5.0 **External Debt**

5.1 The Code specifies a number of prudential indicators in respect of external debt. These are described below:

5.2 Limits to Borrowing Activity

- ◆ Operational Boundary - this is an estimate of the probable external borrowing during the year, it is not a limit and actual borrowing can vary for short periods during the year.
- ◆ Authorised Limit - represents the limit beyond which borrowing is not permitted. It includes estimates for long and short-term borrowing. The limit must be set and can be revised by the Council.

£000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Operational Boundary	137,660	133,250	131,300	129,340
Authorised Limit	148,000	143,000	141,000	139,000

5.3 **Borrowing Strategy** - the current borrowing strategy is to bring the long term debt into line with the capital borrowing limit as determined by the Capital Financing Requirement. The Public Works Loans Board continues to be the main source of long-term financing.

## 6.0 **Annual Investment Strategy**

6.1 The Annual Investment strategy defines what categories of investments are to be used and the restrictions placed on their use. The primary objective is to protect capital and the maximisation of returns is secondary. The credit ratings of the approved counterparties for investments are regularly reviewed.

Appendix A provides details of permitted investments.

## 7.0 **Recommendations**

7.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.

7.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators be approved.

7.3 That the Minimum Revenue Provision policy is approved.

## 8.0 Reasons for recommendations

8.1 To comply with regulations and recognised best practice.

### Decision information

<b>Key decision number</b>	690
<b>Wards affected</b>	
<b>Links to Council Plan priorities</b>	

### Document information

<b>Report author</b>	<b>Contact number/email</b>
Helen Fox	helen.fox@chesterfield.gov.uk
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
<b>Appendices to the report</b>	
Appendix A	Treasury Management Strategy Statement 2017/18

### **Form to return to Democratic Services with report (will be removed before publication)**

<b>Officers/members consulted on the report</b>	
<b>Chief Executive (WBR)</b>	<input type="checkbox"/>
<b>Monitoring officer</b>	<input type="checkbox"/>
<b>Chief finance officer</b>	<input type="checkbox"/>
<b>Policy manager</b>	<input type="checkbox"/>
<b>Human resources manager</b>	<input type="checkbox"/>
<b>Cabinet member portfolio holder (and consultee cabinet member if applicable)</b>	<input type="checkbox"/>
<b>Comments from Cabinet Member (if applicable)</b>	



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# **Treasury Management Strategy Statement 2017/18**

## **Introduction**

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

In October 2003, the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 (the CIPFA code last reviewed in 2011) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

## **External Context**

**Economic background:** The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 from market lows, have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

**Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.



Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

**Interest rate forecast:** The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.62%, and that no new or replacement long-term loans will be necessary.

### **Local Context**

On 31st December 2016, the Authority currently held £134.7m of borrowing and £47.8m of investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	<b>31.3.16 Actual £000</b>	<b>31.3.17 Estimate £000</b>	<b>31.3.18 Forecast £000</b>	<b>31.3.19 Forecast £000</b>	<b>31.3.20 Forecast £000</b>
General Fund CFR	14,450	12,371	13,361	12,761	7,524
HRA CFR	136,405	134,359	132,343	130,358	128,403
<b>Total CFR</b>	<b>150,855</b>	<b>146,730</b>	<b>145,704</b>	<b>143,119</b>	<b>135,927</b>
Less: External borrowing (actual) NB No breach of levels set out in 5.2 of report	-137,659	-133,245	-131,303	-129,336	-127,341
<b>Internal borrowing</b>	<b>13,196</b>	<b>13,485</b>	<b>14,401</b>	<b>13,783</b>	<b>8,586</b>
Less: Usable reserves	-32,471	-30,756	-27,073	-26,427	-21,503
Less: Working capital	-3,653	-3,637	-3,587	-3,562	-3,537
<b>Investments (New borrowing)</b>	<b>22,928</b>	<b>20,908</b>	<b>16,259</b>	<b>16,206</b>	<b>16,454</b>

The Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow for capital purposes.

The Authority has an increasing CFR due to the capital programme. Investments are forecast to increase to £50m by 31/3/18 but will fall in subsequent years as useable reserves are utilised to finance the HRA capital and General Fund revenue budget.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its

highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2017/18.

### **Borrowing Strategy**

The Authority currently holds £133m of loans in 2016/17, a decrease of £2m million on the previous year, as part of its strategy for funding previous years' capital programmes. The forecast in table 1 shows that the Authority does not expect to need to borrow in 2017/18. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £143m in 2017/18.

**Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

**Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

**Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Banks or building societies authorised to operate in the UK (including non-UK banks)
- UK public and private sector pension funds (except Derbyshire Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

**Municipal Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

**Short-term and Variable Rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

**Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

### **Investment Strategy**

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £23m and £51m, and this is expected to increase in the forthcoming year to £50m.

**Objectives:** Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

**Negative Interest Rates:** If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy:** The majority of the Authorities surplus cash remains invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This represents a continuation of the strategy adopted in 2016/17.

**Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

<b>Credit Rating</b>	<b>Banks &amp; Building Societies</b>	<b>Other Local Authorities</b>	<b>UK Government</b>	<b>Corporates</b>	<b>Money Market Funds</b>
AAA	£5m 5 years	n/a	£5m 50 years	£5m 20 years	£5m 5 years
AA+	£5m 5 years	n/a	£5m 25 years	£5m 10 years	£5m 5 years
AA	£5m 4 years	n/a	£5m 15 years	£5m 5 years	£5m 5 years
AA-	£5m 3 years	n/a	£5m 10 years	£5m 4 years	£5m 5 years
A+	£5m 2 years	n/a	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	n/a	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	n/a	£5m 5 years	£5m 13 months	£5m 5 years
BBB+	n/a	n/a	£5m 2 years	£5m 6 months	n/a
None	n/a	£5m 1 year	£5m 25 years	n/a	n/a
<b>Pooled funds</b>	£10m per fund				

**Counterparty & Group Limits:** Investments with each individual counterparty should not exceed £5m. The sum of investments with individual counterparties who belong to the same banking group shall not exceed £7.5m. The investment limit for Enhanced Money Market Funds is £15m per fund.

**Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks - these investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

**Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not

subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

**Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

**Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will



be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisation's in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Specified Investments:** The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or

- a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating equivalent to or higher than the UK sovereign rating. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

**Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. The use of non-specified investments is limited to a maximum of 33% of total investments.

Table 3: Non-Specified Investment Limits

	<b>Cash limit</b>
Total long-term investments	Variable
Total investments without credit ratings or rated below [A-]	£3m
Total non-specified investments	33% of total investments

**Liquidity Management:** The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium term financial plan and cash flow forecast.

## **Treasury Management Indicators**

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	50%	50%	50%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	<b>Upper</b>	<b>Lower</b>
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	45%	0%
5 years and within 10 years	45%	5%
10 years and above	50%	25%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Limit on principal invested beyond year end	33%	25%	25%

### **Other Items**

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

**Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any

amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

**Policy on Apportioning Interest to the HRA:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk

**Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attends training courses, seminars and conferences provided by Arlingclose and CIPFA.

**Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed regularly.

**Investment of Money Borrowed in Advance of Need:** The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £143m for 2017/18. The maximum period between borrowing and expenditure is expected to be three years, although the Authority is not required to link particular loans with particular items of expenditure.

### **Financial Implications**

The budget for investment income in 2017/18 is £0.3m, based on an average investment portfolio of £40m million at an interest rate of 0.62%. For the General Fund, the budget for debt interest paid in 2017/18 is £212k based on an average debt portfolio of £3.3m at an average interest rate of 5.9%. For the HRA, debt interest paid is forecast at £4.9m based on an average debt portfolio of £128m at an average interest rate of 3.8%.

### **Other Options Considered**

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance & Resources believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default;

		however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## **Appendix A – Arlingclose Economic & Interest Rate Forecast November 2016**

### **Underlying assumptions:**

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net



trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

### Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	De c- 16	Ma r- 17	Ju n- 17	Se p- 17	De c- 17	Ma r- 18	Ju n- 18	Se p- 18	De c- 18	Ma r- 19	Ju n- 19	Se p- 19	De c- 19	Av er ag e
Official Bank Rate														
Upside risk	0.0 0	0.0 0	0.0 0	0.0 0	0.0 0	0.0 0	0.0 0	0.2 5	0.2 5	0.2 5	0.2 5	0.2 5	0.2 5	<b>0.12</b>
Arlingclose Central Case	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
Downside risk	0.2 5	0.2 5	0.2 5	0.2 5	0.2 5	0.5 0	0.5 0	0.5 0	0.5 0	0.5 0	0.5 0	0.5 0	0.5 0	<b>0.40</b>

<b>3-month LIBID rate</b>														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.20	<b>0.18</b>
Arlingclose Central Case	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.29</b>
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.34</b>
<b>1-yr LIBID rate</b>														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	<b>0.23</b>
Arlingclose Central Case	<b>0.60</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.60</b>	<b>0.70</b>	<b>0.80</b>	<b>0.90</b>	<b>0.90</b>	<b>0.90</b>	<b>0.65</b>
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	<b>0.24</b>
<b>5-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.39</b>
Arlingclose Central Case	<b>0.50</b>	<b>0.40</b>	<b>0.35</b>	<b>0.35</b>	<b>0.35</b>	<b>0.40</b>	<b>0.40</b>	<b>0.40</b>	<b>0.45</b>	<b>0.50</b>	<b>0.50</b>	<b>0.60</b>	<b>0.60</b>	<b>0.45</b>
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	<b>0.47</b>
<b>10-yr gilt yield</b>														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.39</b>
Arlingclose Central Case	<b>1.15</b>	<b>0.95</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.90</b>	<b>1.00</b>	<b>1.00</b>	<b>1.10</b>	<b>1.10</b>	<b>1.10</b>	<b>0.96</b>
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	<b>0.47</b>
<b>20-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.39</b>
Arlingclose Central Case	<b>1.70</b>	<b>1.50</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.45</b>	<b>1.50</b>	<b>1.50</b>	<b>1.60</b>	<b>1.60</b>	<b>1.70</b>	<b>1.75</b>
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	<b>0.57</b>
<b>50-yr gilt yield</b>														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	<b>0.39</b>
Arlingclose Central Case	<b>1.60</b>	<b>1.40</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.40</b>	<b>1.40</b>	<b>1.50</b>	<b>1.50</b>	<b>1.60</b>	<b>1.41</b>
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	<b>0.57</b>



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## For publication

### EXTERNAL REVIEW OF INTERNAL AUDIT

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Meeting:	Standards and Audit Committee
Date:	8 <sup>th</sup> February 2017
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

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## **For publication**

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### **1.0 Purpose of report**

- 1.1 To inform members of the results of the external review of internal audit that took place at the beginning of October 2016.

### **2.0 Recommendations**

- 2.1 That the results of the external review of internal audit be noted.
- 2.2 That the action plan that has been put in place to address the recommendations arising out of the review be approved.

### **3.0 Report details**

#### **Background**

- 3.1 The Public Sector Internal Audit Standards (PSIAS) were introduced from the 1<sup>st</sup> April 2013 and Internal Audit has been working to those standards since that

date. The PSIAS require that internal and external assessments of internal audit must take place.

- 3.2 An internal self-assessment against the PSIAS utilising the recommended CIPFA checklist has been undertaken on an annual basis by the Internal Audit Consortium Manager and the resultant improvement plans have been reported to and monitored by this Committee.
- 3.3 The PSIAS require that an external assessment of internal audit should be carried out at least once every 5 years by a qualified, independent assessor or team. The first external assessment needed to be completed by April 2018.
- 3.4 A tender exercise was carried out by the NHS procurement unit. The tender was assessed on the basis of 60% quality and 40% cost. Six parties submitted a tender which were analysed by a panel. The tender was awarded to Gateway Assure and the external assessment of internal audit was undertaken by Robin Pritchard from this company.
- 3.5 The assessor (Robin Pritchard) is CIPFA qualified and has 38 years internal audit experience including being Chief Internal Auditor at Staffordshire County Council and a national partner responsible for internal audit at a number of professional service firms. Robin joined Gateway Assure in September 2013 after spending 6 years as Head of Centre for Birmingham City University the leading academic provider of training and research to the internal audit and risk management professions. Robin is an experienced External Quality Assessor and has experience of assessing other Council's internal audit teams against the PSIAS.

### **Format of the assessment**

- 3.6 The assessment took place at the beginning of October 2016 and involved a review of the Consortium's documentation, working practices, committee reports and discussions with the Internal Audit Consortium Manager and Client Officers at each Council. As part of this process the assessor visited each site and reviewed a number of audit working papers.
- 3.7 This approach enabled the assessor to assess the Internal Audit Consortium's conformance with the PSIAS against the recommended checklist and associated standards.

## Results of the Review - Headlines

- 3.8 The report concludes that the Internal Audit Consortium complies with the expectations of the Public Sector Internal Audit Standards. This means that Members can have confidence in the service provided by the audit team. It is acknowledged that the audit team has significant experience and a range of qualifications allowing a robust internal audit standard to be maintained and delivered.
- 3.9 The outcome of the review has been benchmarked against other provision in both the sector and the wider industry and this shows that the team compares favourably in comparison with its peers (end of Appendix 1)
- 3.10 As would be expected, the report has made a number of recommendations that are aimed at highlighting where further development can be made to enhance the value of the service being provided.
- 3.11 The assessor's full report can be seen at Appendix 1.
- 3.12 Appendix 2 is an action plan that has been completed by the Internal Audit Consortium Manager in Liaison with each Council's client Officer.
- 3.13 Each of the assessor's recommendations has been graded to reflect the relative importance to the relevant standard within the PSIAS.

Recommendation grading	Explanation
Enhance	The internal audit Consortium must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit Consortium should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit Consortium should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

## Key Points Arising out of the Review

- 3.13 The key theme throughout the report and associated recommendations is in relation to enhancing and developing the use of risk based auditing in order

to be able to provide increased levels of assurance. The responses in the action plan at Appendix 2 detail how this will be achieved but actions include:-

- Annual audit plans to more clearly demonstrate the links to the strategic and operational risk registers
- Identification of other sources of assurance that are available in addition to internal audit upon which the Council can place reliance
- Greater discussion with managers at the commencement of an audit in terms of identifying the key risks to a service
- Consideration of further risk management training for the audit team
- Reviewing the terminology used for the opinion given at the end of an audit to reflect assurance and risk levels
- Developing the annual audit opinion to incorporate all significant risks with a greater link to the significant risks as identified in the Annual Governance statement, strategic risk register and from other sources of assurance.

3.14 Two recommendations received a red grading. The first red recommendation was:-

“There is a need for the Consortium to be able to provide assurance relating to the IT risks given the increased complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members”

3.15 Although the Consortium staff do not possess any formal IT qualifications, a number of IT audits are successfully carried out and pertinent recommendations made. Team members keep abreast of new IT threats and challenges through articles in professional journals and ad hoc training sessions. This is also a prime example of where assurance can be gained from other sources e.g. an external assessment has to take place for the Council to gain PSN accreditation.

3.16 A dedicated IT Auditor would be expensive and difficult to recruit. Training an existing member of staff would be a lengthy process and there is no guarantee that they would remain with the Consortium. The Internal Audit Consortium has a budget of £5,000 a year for professional services that is currently not committed. Consideration will be given to using this budget for external specialist support if required. Derby City and Derbyshire County Council have dedicated IT auditors that may be able to provide this service.

3.17 The second red recommendation was:-



“In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to provide a wider assurance to each Authority in support of the governance statement. Best practice is that the annual report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised the range of assurances available is essential in order to meet this broader scope. In this way the annual report can be used to support the Council’s governance statement”

- 3.18 The audit plan is already risk based however this process will continue to be refined with the audit plan being more demonstrably linked to the strategic and operational risk registers. The format of the annual audit opinion will be reviewed to ensure that it covers all significant risks as identified by the audit work undertaken, the annual governance statement, the strategic risk register and any other significant risks identified by other sources.
- 3.19 Other recommendations have been graded amber and green. Each recommendation has been responded to at Appendix 2.

#### 4.0 **Human resources/people management implications**

- 4.1 There are no Human Resources Implications. The action plan will be implemented with the resources already available.

#### 5.0 **Financial implications**

- 5.1 There are no financial implications the action plan will be implemented with the resources already available in the Consortium. .

#### 6.0 **Legal and data protection implications**

- 6.1 There are no legal or data protection implications.

#### 7.0 **Consultation**

- 7.1 Not Applicable

## 8.0 **Risk management**

8.1 The implementation of the action plan will ensure that the Council continues to receive an effective internal audit service that is compliant with the PSIAS and that continually strives to improve.

## 9.0 **Equalities Impact Assessment (EIA)**

9.1 Not applicable.

## 10.0 **Alternative options and reasons for rejection**

10.1 There are no alternatives.

## 11.0 **Recommendations**

11.1 That the results of the external review of internal audit be noted.

11.2 That the action plan that has been put in place to address the recommendations arising out of the review be approved.

## 12.0 **Reasons for recommendations**

12.1 To ensure that Members are aware of the results of the external review of internal audit that is required by the PSIAS.

### **Decision information**

<b>Key decision number</b>	N/A
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	This report links to the Council's priority to provide value for money services.

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
<b>Jenny Williams – Internal Audit Consortium Manager</b>	<b>01246 345468  Jenny.williams@chesterfield.gov.uk</b>
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	
Appendix 1	External Review of Internal Audit
Appendix 2	External Review of Internal Audit Action Plan

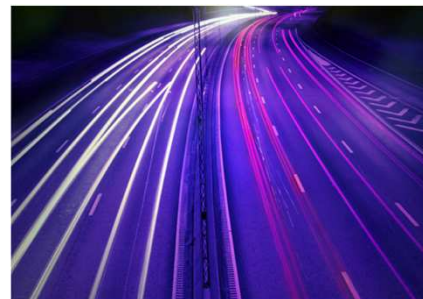
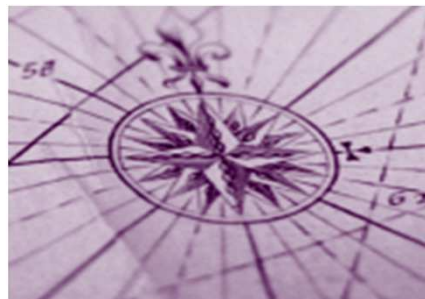
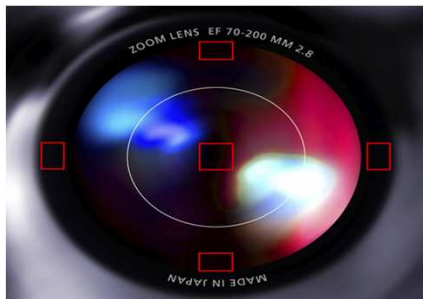
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## Internal Audit Consortium

# Internal Audit – External Quality Assessment

October 2016



## Purpose of assignment

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The Internal Audit service for the Local Authorities of Chesterfield Borough Council (CBC), NE Derbyshire District Council (NEDC) and Bolsover District Council (BDC) is provided by a consortium arrangements which extends to provide an internal audit management support service to Derbyshire Dales District Council (DDDC). Under the leadership of Jenny Williams, Internal Audit Consortium Manager (IACM) the team have responded to the Public Sector Internal Audit Standards and have increasingly worked to a common methodology for delivery of internal audit services. Performance against the standard has been self assessed on an annual basis and appropriate reports provided to member authority committee meetings.

The purpose of this review is to provide an external and independent quality review in accordance with standard 1312. We see this as not merely a compliance exercise and have also highlighted aspects of the service that we regard as best practice as well as summarised our thoughts as to where further development can be made to enhance the value of the service being provided.

The teams have significant experience, with a range of relevant qualifications and it has been recognised that there is a need to ensure a consistent approach to delivering assurance, as this is beneficial regarding communication with clients, working practices, reporting and therefore associated supervision and training needs. At a corporate level this is established through the presence of an Internal Audit Charter and an Internal Audit Manual which effectively define the standards to which the Consortium will carry out its work.

The report reflects our opinion regarding the services currently provided measured against the Public Sector Internal Audit Standards (PSIAS), which we trust will be of benefit to individual staff, the team and the local authorities serviced by the Consortium. Our observations and recommendations have been summarised within categories relating to the Resources, Competency, and Delivery and the team graded as being at one of three stages within each category, grades are related to our opinion as to whether the service is developing, established or excelling.

The outcome has been benchmarked against other provision in both the sector and the wider industry which shows that the team compares favourably in comparison to its peers.

The Consortium has responded to significant restructuring/merger of the team in recent years and through gradually moving towards a common approach that is consistent with the PSIAS.

The significant change within the PSIAS reflects the focus on a requirement to implement a risk based internal audit approach to all aspects of internal audit work – significantly in relation to planning at a strategic and assignment level as well as in reporting. The Consortium does adopt a risk based approach through the development of its own risk assessment at a strategic planning level and at an assignment level through testing schedules which the team feel reflect the key risks to which each authority and each system are exposed.

Nevertheless, all four authorities with which the Consortium is involved have developed risk management strategies and associated frameworks; two of which in accordance with best practice clearly define impact measures for risk and risk appetite. Whilst those at NEDDC and BDC contain definitions it is felt that greater clarity could be included (for example – values of financial risk) with refinement of what represents a “high priority” (a red graded risk) to reflect risk appetite and what may represent a catastrophic or major risk to each Council.

As a consequence, it would be beneficial for internal audit to increasingly align its processes with those of the host authority as this would promote effective communication, structure audit work on ‘what really matters’ and use risk as the basis for reporting. In this respect we have recommended that future opinions and recommendations relate directly to established risk definitions within each authority, with the current priority rating being used solely in terms of when recommendations are agreed to be acted upon.

As a result of the current processes, whilst risks in relation to reputational risk and sensitivity are considered, materiality tends to be the focus for assignments and reporting, with work having a tendency to focus on financial control issues rather than be fully risk based and directly aligned with the Council’s view of risk. This may lead to a failure to address the most significant issues that are being faced and/or addressed by the Council, where an accepted likelihood score assumes that effective controls are in place without gaining appropriate assurance. We do in this respect, recognise that resource reduction is a critical issue for local government services, however by focusing on risk this may change the emphasis of an assignment from one of financial controls to attainment of best value?

Increasing transparency within the Council risk management systems regarding the inherent risks being faced and upon those assurances available would allow internal audit to clearly define risks and key mitigating controls and therefore provide a robust basis for communication with managers and with other assurance providers, although different perceptions of risk appetite exist within the Councils involved.

## Executive summary (cont)

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Such development would further enable the IACM to develop assurance based opinions at an assignment and annual reporting level through consideration of the wider assurances available to each Council.

The Consortium has benefitted from a period of stability during which staff have remained consistent, and therefore a robust internal audit standard has been maintained and delivered using an experienced team. This has allowed the Consortium to demonstrate compliance with the PSIAS.

Nevertheless with increasing pressures on Council budgets, significant change to service delivery and as a result increasing risk; there is a need for the Consortium to enhance its delivery through greater awareness of the relevance of risk to both the Council and its own approach, in order to ensure that it focuses on the most appropriate areas and as a result demonstrates that it provides a service that effectively contributes towards the achievement of each Council's objectives.



### Compliance with PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

## Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).


Recommendation grading	Explanation
Enhance	The internal audit Consortium must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS in order to demonstrate a contribution to the achievement of the organisations objectives in relation to risk management, governance and control.
Review	The Internal audit Consortium should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit Consortium should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services





- In grading our recommendations, we have considered the wider environment within the Council in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.



# Summary of good practice identified within EQA


Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with each Authority	The Charter is comprehensive and establishes an appropriate framework against which internal audit services can be delivered.
1100	The Consortium team members submit an annual declaration of interests which is reviewed by the IACM	Demonstrates a commitment to the delivery of an independent and objective service
1312	The Consortium has conducted annual self assessment exercises resulting in an annual development plan which is agreed by the host authorities.	Demonstrates a process and commitment to continuous improvement.
2020	Active engagement at officer and member level	Represents the establishment of a good understanding of key issues through interaction
2030	The NEDIAC routinely assesses its training needs and discusses requirements with the Consortium Joint Board	This represents a firm basis for the consideration of training and recruitment needs
2040	A detailed internal audit manual is in place	Provides for a consistent methodology
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely obtained following conduct of an audit.	Demonstration of a consistent approach for communication which is well received by management and the Audit Committee
2300	Audits are performed using an approach which is consistently applied	This supports a view that the internal audit team understand the standard processes and are trained in its use
2400	Reports are clear and express opinions in a manner that is understood by stakeholders. Reports containing more significant recommendations are presented to operational management meetings where felt appropriate	Reports are produced on a timely basis, with summaries being produced for Audit Committee attention




Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action
1	<p><b>Supervision</b></p> <p>Supervision of an internal audit assignment is not always evidenced within internal audit files. A formal file review document is completed by a supervisor following exit meetings or production of a draft report, with supervision during an audit being conducted through discussion and monthly 121 meetings.</p>	<p>The nominated supervisor should ensure and evidence that active supervision is maintained and documented throughout the assignment process through recording involvement and instructions on the review form.</p> <p>A suggested format for diarising supervision which is used within peer providers is attached as Appendix 1.</p> <p>File review forms should be introduced at DDDC as part of a standard approach.</p> 




	Issue identified	Recommended action
1	<p><b>Governance and standards</b></p> <p>The Internal Audit Manual is a comprehensive document which refers to the PSIAS but does not sufficiently reference the processes that audit staff should follow in conducting assignments to the various standards. We feel that this would help to elevate the understanding and status of internal audit if the key standards within the PSIAS were fully documented within the document.</p>	<p>The Internal Audit Manual could be beneficially improved by referring directly to those PSIAS standards that <b>must</b> be followed and providing detailed advice regarding expectations, particularly in respect of each area.</p> 
2	<p><b>Internal Audit Planning</b></p> <p>Whilst planning is based upon a risk model as required by the PSIAS, the process largely depends on an assessment devised by internal audit; this shows a financial bias and the use of different definitions of risk impact to those approved within the Council risk management strategy; rather than reflecting the wider and accepted risk issues being recognised by the Council.</p> <p>There should be a direct and identified link between the internal audit plan content discussed with Audit Committees which aligns with the Councils risk management systems; beneficially reflecting both identified controls and assurances available. The risk based reasoning for inclusion of the assignment in the audit plan should be evident (why is there a need for independent assurance?), and in turn this should drive the preparation of the terms of reference for each assignment as recorded within the Audit Brief.</p>	<p>a. Audit Plans should be constructed to achieve the objectives of the department as set out in the Internal Audit Charter and the audit planning process designed to reflect the same through transparent alignment with the Council wide approach to risk management. </p> <p>b. The internal audit planning process should further identify other sources of assurance that are available and upon which Councils can place reliance. </p> <p>c. The starting point for the development of the Audit Brief should be a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. It may aid assignment planning if the management objectives for the area under review were also identified. This should result in the formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda. </p>

	Issue identified	Recommended action
3	<p><b>Training</b></p> <p>The department has an experienced team of internal audit staff whose training needs are assessed through regular 121 meetings and appraisal and development meetings. Most staff have a relevant qualification, although only the IACM and one other member of staff have a recognised CCAB or IIA certification.</p> <p>The team attend routine meetings of various groups locally and regionally and use is made of dedicated cost effective training that is available.</p> <p>The IACM ensures that available budgets are used to best effect.</p> <p>Whilst the IA team have identified technology related issues given the nature of cyber risk it is felt that this is a weakness that should be addressed.</p>	<p>a) Consideration should be given to those areas within the training matrix which reflect greatest need for routine mandatory training of a professional or technical nature. These may relate to areas such as Data Protection or Health and Safety, where it is important for all staff to have a firm understanding or specific training relating to internal audit such as risk based internal audit or reporting. </p> <p>b) There is a need for the Consortium to be able to provide assurance relating to IT risks given the increasing complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members. </p>

	Issue identified	Recommended action												
4	<p><b>Control evaluation</b></p> <p>The Consortium uses the following gradings for the assessment of controls included within the testing schedule.</p> <table border="1" data-bbox="396 660 1133 986"> <thead> <tr> <th>Control Level</th> <th>Definition</th> </tr> </thead> <tbody> <tr> <td>Good</td> <td>A few minor recommendations (if any).</td> </tr> <tr> <td>Satisfactory</td> <td>Minimal risk; a few areas identified where changes would be beneficial.</td> </tr> <tr> <td>Marginal</td> <td>A number of areas have been identified for improvement.</td> </tr> <tr> <td>Unsatisfactory</td> <td>Unacceptable risks identified, changes should be made.</td> </tr> <tr> <td>Unsound</td> <td>Major risks identified; fundamental improvements are required.</td> </tr> </tbody> </table> <p>Our view would be that this represents an overly complex structure for expression of an opinion on the control environment and the nature of the issue identified against which a recommendation will be made.</p> <p>Standard practice is for each control to be assessed in terms of its adequacy and effectiveness, with the subsequent recommendation being graded as risk based (see Delivery 3b/c)</p>	Control Level	Definition	Good	A few minor recommendations (if any).	Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.	Marginal	A number of areas have been identified for improvement.	Unsatisfactory	Unacceptable risks identified, changes should be made.	Unsound	Major risks identified; fundamental improvements are required.	<p>The Consortium should consider the merits of moving to expression of the control in environment in the form of:-</p> <ol style="list-style-type: none"> <li>The appropriateness of the control environment having regard to the significance of the risks involved – adequate/inadequate, and</li> <li>Whether the control is being consistently applied – effective/ineffective</li> </ol> 
Control Level	Definition													
Good	A few minor recommendations (if any).													
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.													
Marginal	A number of areas have been identified for improvement.													
Unsatisfactory	Unacceptable risks identified, changes should be made.													
Unsound	Major risks identified; fundamental improvements are required.													



	Issue identified	Recommended action
1.	<p><b>Focus on pre-identified controls</b></p> <p>Assignments are dominated by previously identified controls emanating from the CIPFA control matrices which are then tested to specified testing levels rather than provide focus on significant risk and associated key controls identified and evaluated as part of the documentation process. Benefits would be achieved through increased focus on agreed 'local' key controls relating to business critical risks and then tested according to the materiality of their contribution to the Council's risk management framework.</p> <p>Whilst the current testing is robust, documented and well evidenced it may not provide assurance relating to the most significant risks to which the service is exposed.</p>	<p>Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee.</p> <p>Assignment briefs should therefore reflect assessment of risks as defined within the Councils risk impact definitions and then consider the controls that are required to mitigate that risk within the risk appetite of the Council.</p> <p>An example risk based Assignment Brief is included as Appendix 2.</p> 
2	<p><b>Methodology and use of walk-through tests</b></p> <p>For core financial systems, systems documentation exists and is we understand supported by flowcharts, in accordance with para 8.1.1 of the Internal Audit Manual. For other audits whilst it is accepted the system notes exist mostly in the form of notes within the evidence collected, files do not contain an outline of the system as specified in the internal audit manual as stage 4 of the above and there is therefore a reliance on previously constructed testing schedules to define the scope of the audit.</p> <p>As the risk environment, service provision, staff in post and therefore systems change it is considered important that each audit commences with providing a documented oversight of the component parts of the system in which key controls that are to be relied upon for the purposes of providing an opinion are documented and tested using a walk through test.</p>	<p>a. Auditors should complete at least a system note at the start of each audit in order to outline an overview of the processes being reviewed in order to aid understanding and the structure of the audit and provide an understanding of the system to aid supervision and the efficient conduct of future audits.</p>  <p>b. The internal audit manual should specify the minimum standards requirements for file structure and content for electronic files in order to aid supervision. These may be planning and communication, systems documentation and identified procedures, fieldwork (control summaries supported by testing and evidence) and reporting. (Refers to section 9.3.3 of the internal audit manual)</p> 






	Issue identified	Recommended action
3	<p><b>Audit Opinions - Recommendations</b></p> <p>These are currently developed and assessed by each internal auditor, and reviewed by the Audit Manager prior to release of the draft report (sometimes subsequent to discussion of findings at an 'exit meeting' at which the grading of recommendations may have been discussed). This system relies on personal judgement related to 'Priority' for which no definition exists to articulate the meaning of High, Medium or Low.</p> <p>The definitions used by internal audit to support opinions therefore lack clarity and should be more closely linked with each Authority's risk appetite and the definitions of impact risk being used to embed risk management thinking within the organisation.</p> <p>The basis for grading of recommendations should as a result influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'.</p>	<p>a) Audit supervisors should formally evidence agreement of the grading of recommendations through supervision prior to the conduct of exit meetings. </p> <p>b) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting. </p> <p>c) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in a side letter to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies. </p>

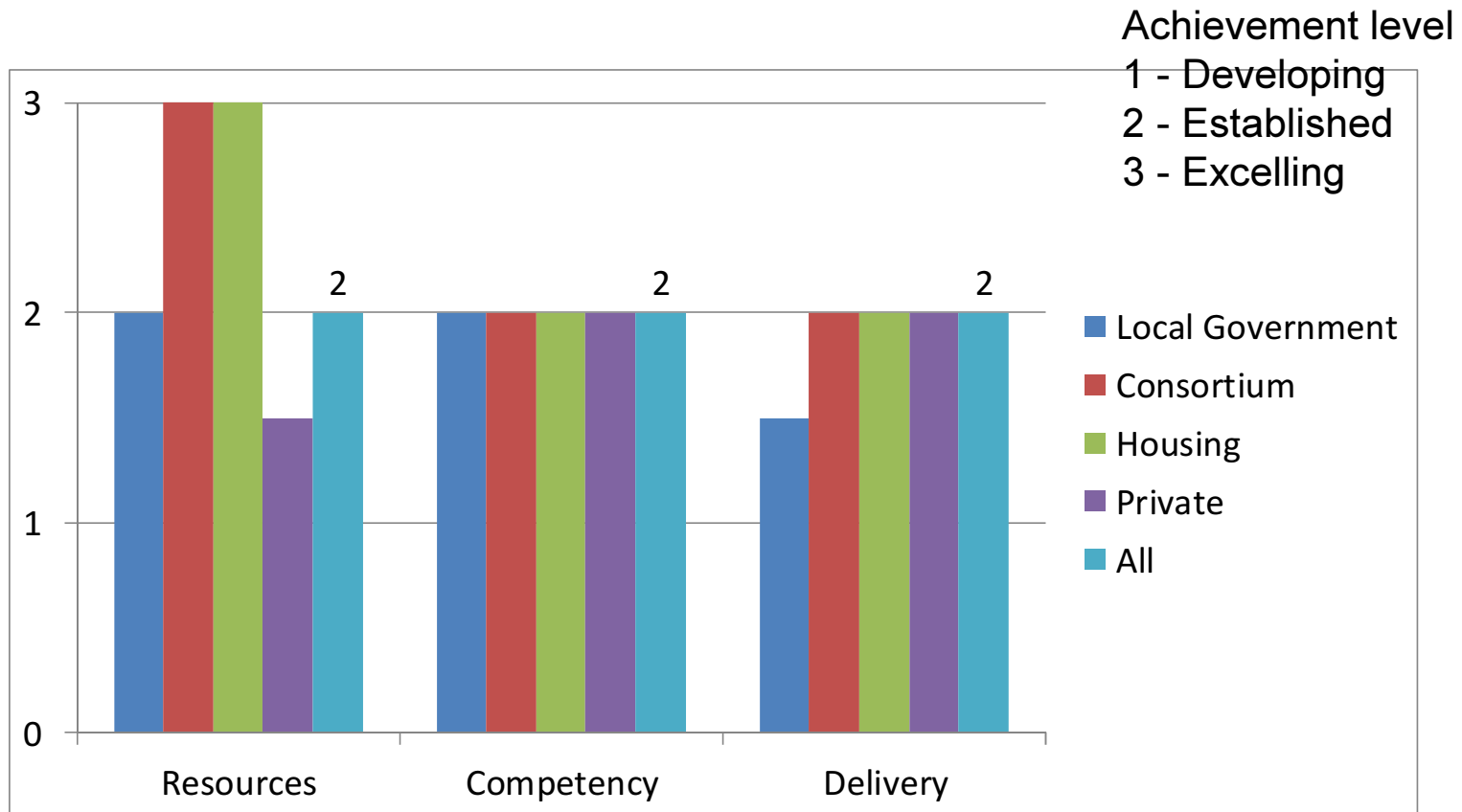
	Issue identified	Recommended action
4	<p><b>Audit Opinions - Overall opinions</b></p> <p>These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and IACM of the draft report prior to release.</p> <p>The overall opinion also appears to be loosely based on the aggregate number of recommendations made and not the level of risk identified. The current is for the opinion to reflect the reliability of the internal controls operating in the system / area reviewed was assessed as good* / satisfactory* / marginal* / unsatisfactory* / unsound*.</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate or limited as this provides a clearer indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p>	<p>a) The grading of recommendations should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.</p> <p>Best practice would reflect:</p> <ul style="list-style-type: none"> <li>- Where a fundamental risk (red) is identified that no/limited assurance is given.</li> <li>- Where significant risks (amber) are identified then adequate assurance is given, and</li> <li>- Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given.</li> </ul> <p>b) Reducing the levels of opinion to three would provide a clearer indication of the assurance being provided and represent a more straight-forward approach for internal audit staff to administer.</p>

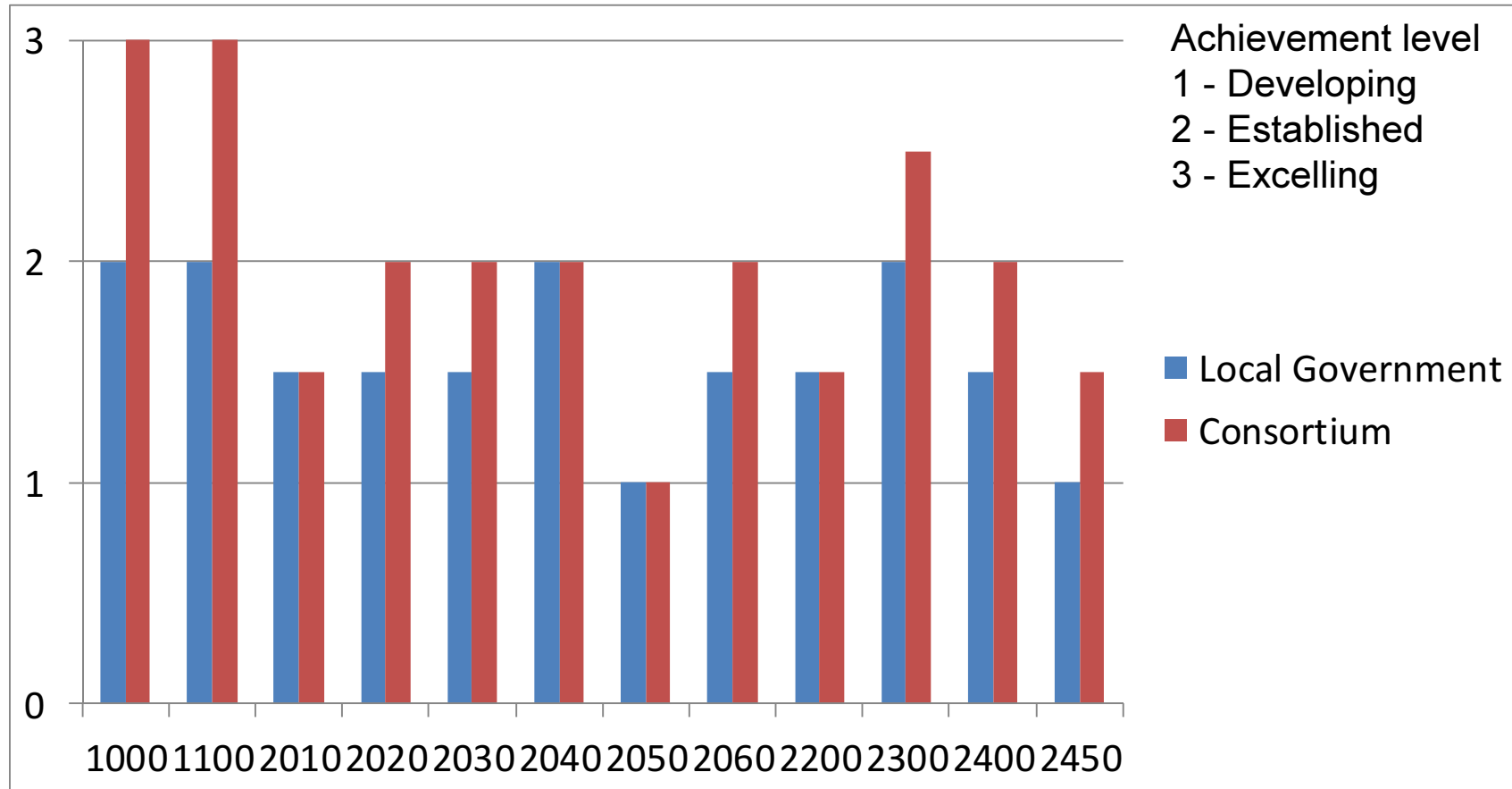


	Issue identified	Recommended action
5	<p><b>Report format</b></p> <p>The Consortium currently provides a detailed report which is then summarised appropriately to inform other meetings within the Council at Officer and Member levels.</p> <p>It would not be appropriate to comment negatively on this approach particularly as positive feedback regarding internal audit performance can be seen in the return of satisfaction surveys during 2016/17 and was gained in meetings with officers as part of the EQA.</p> <p>However, internal audit reports are 'lengthy' and in developing an increasingly risk based approach consideration could be given to moving to an exceptions based executive summary highlighting significant risks.</p>	<p>The Consortium should consider whether focusing on risk as a basis for reporting would allow movement towards an 'executive summary' approach which highlights only significant risks.</p> <p>This may help further build the profile of internal audit and allow greater efficiency within the team through reducing the time consumed in report production and clearance.</p> 
6	<p><b>Auditee feedback</b></p> <p>At the time of the review feedback questionnaires had been received in respect of 24 audits undertaken during 2016/17, all received scores in excess of 80% with the only areas showing as requiring improvement relating to:-</p> <ul style="list-style-type: none"> <li>- Were recommendations practical and useful, and</li> <li>- Sufficient to remedy weaknesses identified in the report</li> </ul>	<p>The IACM should continue to monitor feedback as it moves towards an increasingly risk focused so that as changes are made to internal audit practices; these can be aligned with improvements in the way internal audit value is perceived.</p> 

	Issue identified	Recommended action
7	<p><b>Annual Report</b></p> <p>The IACM produces an Annual Audit report which summarises the years work and includes analysis of performance. The opinion reflects <i>'In respect of the main financial systems, Appendix 1 shows that internal controls were found to be operating satisfactorily or well, giving an overall confidence in the internal control system operating in relation to these systems'</i> .</p> <p>The form required by the PSIAS requires a wider statement based upon the fullness of the assurances and knowledge available to the IACM which <i>'must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board'</i>.</p>	<p>In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to provide a wider assurance to each Authority in support of the governance statement.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised by the range of assurances available is essential in order to meet this broader scope.</p> <p>In this way the Annual Report can be used to support the Councils Governance Statement.</p> 
8	<p><b>Reports produced by the IACM</b></p> <p>It is considered good practice that the IACM is involved in conducting assignments particularly in relation to high risk areas but in such circumstances appropriate arrangements should be made for 'supervision' and clearance of reports.</p>	<p>In circumstances where the IACM undertakes a review personally arrangements should be made for a second person review of the file.</p> 
9	<p><b>Derbyshire Dales DC</b></p> <p>Whilst it is recognised that arrangements for this Council are outside of the core Consortium arrangements. It would be beneficial for the established internal audit processes contained within the Internal Audit Manual to be applied as this will aid consistency of approach, training and supervision.</p>	<p>Standardised procedures should be implemented regarding:</p> <ul style="list-style-type: none"> <li>- The use of Audit Briefs,</li> <li>- Working paper review, and</li> <li>- The approach to IT audit</li> </ul> 

1	<b>RESOURCES</b>		<b>Excelling</b> – Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with PSIAS expectations.
2	<b>COMPETENCY</b>		<b>Established</b> – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.
3	<b>DELIVERY</b>		<b>Established</b> – Processes in this area are embedded within every day practices, the EQA has identified a number of areas in which further development is desirable.





# Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.



- The internal audit provision within the Councils of Chesterfield Borough Council, NE Derbyshire District Council, Bolsover District Council and Derbyshire Dales District Council (DDDC). complies with the expectations of the Public Sector Internal Audit Standards.
- There are a number of areas in which the service can be further improved in relation to the use of risk based auditing which will provide increased levels of assurance to the Councils and assist in improving its profile and the subsequent feedback that is received from clients:
  - the service should move to an approach that reflects full recognition of the risk factors recognised by the Councils both at a strategic planning level and when conducting assignments.
  - the use of opinions should be reviewed to better reflect the risk appetite of the Council and not be linked to a timescale (current priority rating); the emphasis should reflect identification and escalation of recommendations graded as significant that match risk definitions graded as 'red' or 'amber' within the various risk management systems.
  - the IACM should consider the need for a member of the team to gain a relevant IT audit qualification.
  - the further development of risk management systems to reflect a Board (Controls) Assurance Framework within each Council would enable greater recognition of key mitigating controls and the other sources of assurance with which internal audit effort should be co-ordinated in order to support the Governance Statements process.

# Appendix 1

## Example File Index, Audit Progress and Supervision Record

**External Quality Assessment**  
Example File Index, Audit Progress and Supervision record

Audit ref: xx.xx      Audit:      Audit Year: 2016/17

File location (hyperlinks to be used where practical)		Date	Initials	Progress check (PSIAS 2340)
<b>A</b>	<b>Planning (PSIAS 2010/2200)</b>			
<b>A1</b>	<b>Audit Planning Brief (APB) prepared</b>			
A1	APB approved by Chief Internal Auditor (CIA)**			
A2	APB issued to: - - - <b>All APB's to go to s151 officer</b>			
A3	APB – management comments received and addressed (reissue APB if required)			
<b>A4</b>	<b>Draft Control Evaluation Matrix (CEM) (PSIAS 2210/2220)</b> approved Supervisor/CIA			
<b>B</b>	<b>Fieldwork (PSIAS 2300)</b>			
<b>B1</b>	<b>CEM (and audit testing) completed</b>			
B1.1	Control Matrix review points from Supervisor/CIA received and addressed			
B1.2	Review points regarding CEM from Supervisor/CIA received and addressed			
<b>B2</b>	<b>Audit evidence (PSIAS 2330)</b>			
B2.1	Audit evidence: (enter detail)			
B2.2	Audit evidence: (enter detail)			
B2.3	Audit evidence: (enter detail)			
	All necessary audit evidence scanned to e-file and referenced			
<b>C</b>	<b>Reporting (PSIAS 2440)</b>			
<b>C1</b>	<b>Formal closing meeting with auditees held</b> (within 5 working days of fieldwork completion)			
<b>C2</b>	<b>Draft report prepared</b>			
C2.1	Review points from Supervisor/CIA received and addressed (re-submit for review as required)			
C2.2	Draft report approved for issue by CIA			
C2.3	Draft report issued to all named respondents (within 10 working days of closing meeting)			
<b>C3</b>	<b>Management responses/comments to draft report</b> (received within 10 working days and addressed)			
<b>C4</b>	<b>Final report (PSIAS 2450) prepared</b>			
C4.1	Final comments from Supervisor/CIA received and addressed			
C4.2	Final report approved for issue by CIA			
C4.3	Final report issued in PDF format to:			

**External Quality Assessment**  
Example File Index, Audit Progress and Supervision record

	- - - - <b>All reports to go to s151 officer</b> (Issue within 5 working days of management responses)			
<b>D</b>	<b>File completion</b>			
<b>D1</b>	<b>Recommendations included on the Recommendation Tracker</b>			
<b>D2</b>	<b>Customer satisfaction questionnaire (PSIAS 2500/2600) issued</b>			
D2.1	Responses received and addressed			
D2.2	Previous audit files destroyed in line with the Document Retention Policy.			
<b>E</b>	<b>File clearance (PSIAS 2340)</b>			
E1	e-file sign off by Supervisor confirming sufficient, appropriate audit evidence on file and proper completion of this checklist			
E2	Useful corporate documents for planning – risk register, service plans etc placed in e planning file			
E3	Useful, sector-specific reference materials – included on KnowledgeSpace – such as www.gov.uk, professional bodies etc.			
E4	Other thoughts regarding this assignment:			

# Example Audit Brief and Control Summary



## Assignment Brief

Client			
Assignment			
Audit Year:		Audit Ref:	

<b>Management Objective for the System</b>			
<b>Key Risks</b> <small>Identified from the Risk Register, discussions with management &amp; Knowledge Base</small>	<b>Key Controls (to mitigate risk)</b> <small>To include expected controls, those identified through discussion with client and documentation of processes</small>	<b>Conclusion</b> <small>In terms of adequate and effective mitigation of the risk identified</small>	<b>Report Reference</b>
1			
2			
3			
4			
<b>Audit Approach</b>			

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## APPENDIX 2

<b>Report Title:</b>	<b>External Review of Internal Audit (October 2016)</b>		

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<b>RESOURCES</b>  <b>Supervision</b> Supervision of an internal audit assignment is not always evidenced within internal audit files. A formal file review document is completed by a supervisor following exit meetings or production of a draft report, with supervision during an audit being conducted through discussion and monthly 121 meetings.	The nominated supervisor should ensure and evidence that active supervision is maintained and documented throughout the assignment process through recording involvement and instructions on the review form.  A suggested format for diarising supervision which is used within peer providers is attached as Appendix 1  File review forms should be introduced at DDDC as part of a standard approach.	Part            Y	IAC Manager/ Senior Auditors            IAC Manager	Ongoing            Immediate	There is already a formal review process in place. A standard file review form is completed at the end of an audit that records any queries/issues/further work required that are outstanding. Once these issues have been satisfactorily resolved the review form is signed off and the close out meeting can be held with the relevant manager.  Teams are small and there is regular dialogue amongst team members as an audit progresses. It is felt that recording these conversations would be time consuming and wouldn't add anything to the process. However, if any significant issues arise during audits then these will be documented as part of the file review.  Internal Audit Consortium Manager to introduce file review forms at DDDC

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p><b>COMPETENCY</b></p> <p><b>Governance and standards</b> The Internal Audit Manual is a comprehensive document which refers to the PSIAS but does not sufficiently reference the processes that audit staff should follow in conducting assignments to the various standards. We feel that this would help to elevate the understanding and status of internal audit if the key standards within the PSIAS were fully documented within the document.</p>	The Internal Audit Manual could be beneficially improved by referring directly to those PSIAS standards that <b>must</b> be followed and providing detailed advice regarding expectations, particularly in respect of each area.	Y	IAC Manager	August 2017	IAC Manager to review and update audit manual to include more detail in respect of specific PSIAS standards. Internal audit staff all have a copy of the standards however a copy of the PSIAS Standards will be appended in the audit manual
<p><b>COMPETENCY</b></p> <p><b>Internal Audit Planning</b> Whilst planning is based upon a risk model as required by the PSIAS, the process largely depends on an assessment devised by internal audit; this shows a financial bias and the use of different definitions of risk impact to those approved within the Council risk management strategy; rather than reflecting the wider and accepted risk issues being recognised by the</p>	a) Audit Plans should be constructed to achieve the objectives of the department as set out in the Internal Audit Charter and the audit planning process designed to reflect the same through transparent alignment with the Council wide approach to risk management.	Y	IAC Manager	For 17/18 IA Plan	The Council's strategic and operational risk registers are already used to inform the audit plan. The IAC Manager sits on risk management groups. Directors, Service Managers and the Risk management Group are consulted in respect of the content of the plan. Areas in the plan are already identified as High, Medium or Low risk however the 2017/18 Internal Audit plan will be presented to more clearly demonstrate the links with the Council's risk registers. Non- financial areas are already

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>Council. There should be a direct and identified link between the internal audit plan content discussed with Audit Committees which aligns with the Council's risk management systems; beneficially reflecting both identified controls and assurances available. The risk based reasoning for inclusion of the assignment in the audit plan should be evident (why is there a need for independent assurance?) and in turn this should drive the preparation of the terms of reference for each assignment as recorded within the Audit Brief.</p>					<p>identified for review e.g. health and safety, safeguarding, gas servicing. A number of other Council's audit plans have been obtained and this has not identified any significant gaps in the Consortium's audit plans. There are a range of other assurances in place including the Performance Management Framework and the Annual Governance Statement which provide assurance and identify potential weakness. The process will continue to be refined.</p>
	b)The internal audit planning process should further identify other sources of assurance that are available and upon which Councils can place reliance.	Y	IAC Manager	August 2017	<p>IAC Manager to meet with Directors/Heads of Service/ raise at CMT/quarterly Directorate meetings to identify and document other sources of assurance that are available upon which the Council can place reliance. The results of this exercise can then be used to further inform the basis for the internal audit plan.</p>
	c) The starting point for the development of the Audit Brief should be a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. It may aid assignment planning if the management objectives for	Y	IAC Manager/ Senior Auditors	April 2017	<p>In the majority of cases a start- up meeting is already held with managers and the audit coverage discussed. The current audit brief and start up meeting can be developed to focus more upon the risks associated with the areas being tested/key controls and any links to operational risk registers and service plans.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
	the area under review were also identified. This should result in the formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda.				
<p><b>COMPETENCY</b></p> <p><b>Training</b> The department has an experienced team of internal audit staff whose training needs are assessed through regular 121 meetings and appraisal and development meetings. Most staff have a relevant qualification, although only the IACM and one other member of staff have a recognised CCAB or IIA certification. The team attend routine meetings of various groups locally and regionally and use is</p>	a) Consideration should be given to those areas within the training matrix which reflect greatest need for routine mandatory training of a professional or technical nature. These may relate to areas such as Data Protection or health and Safety where it is important for all staff to have a firm understanding or specific training relating to internal audit such as risk based internal audit or reporting.	Y	IAC Manager	Ongoing	Audit staff have regular data protection and safeguarding training and undertake corporate training as available/required. The Consortium will continue to take advantage of the Corporate training provided. Consideration will continue to be given to the provision of other training in relation to technical and professional areas within the confines of the budget available. Consideration will be given to further risk training for the audit team. One member of the team is studying for their IIA qualification.



Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>made of dedicated cost effective training that is available. The IACM ensures that available budgets are used to best effect.</p> <p>Whilst the IA team have identified technology related issues given the nature of cyber risk it is felt that this is a weakness that should be addressed.</p>	<p>b) There is a need for the Consortium to be able to provide assurance relating to IT risks given the increasing complexity of technology and associated controls. It is therefore essential that appropriate professional training is supported for a member of the team or that the service is acquired externally in order to deliver on the assurance needs of the consortium members.</p>	Y	IAC Manager	As required	<p>Consideration will be given to the identification and utilisation of external specialist support e.g. DCC or Derby City internal auditors where it is felt this is required.</p> <p>All four Councils are currently subject to independent PSN compliance on an annual basis which provides robust independent assurance concerning those aspects of the network covered by this testing.</p>
<p><b>COMPETENCY</b></p> <p><b>Control evaluation</b> The IAC uses the following gradings for the assessment of controls included within the testing schedule.</p> <p><b>Good</b> – A few minor recommendations (if any) <b>Satisfactory</b> – minimal risk; a few changes identified where changes would be beneficial <b>Marginal</b> – a number of areas have been identified for improvement <b>Unsatisfactory</b> – Unacceptable</p>	<p>The Consortium should consider the merits of moving to expression of the control in environment in the form of:-</p> <p>a) The appropriateness of the control environment having regard to the significance of the risks involved – adequate/inadequate, and</p> <p>b) Whether the control is being consistently applied – effective/ineffective</p>	Y	IAC Manager	April 17	<p>The IAC Manager to investigate alternative assessment wording based on levels of assurance. Consideration to be given to introducing revised assessment terminology from April 2017. Any proposals will be subject to discussions with the Audit Committees of the four Councils concerned to ensure a standard grading approach is retained.</p> <p>Client officers are however of the view that the existing grading arrangements do serve to give them a clear view of the position in respect of each service and that the use of 5 categories does</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>risks identified, changes should be made</p> <p><b>Unsound</b> – Major risks identified; fundamental improvements are required</p> <p>Our view would be that this represents an overly complex structure for expression of an opinion on the control environment and the nature of the issue identified against which a recommendation will be made. Standard practice is for each control to be assessed in terms of its adequacy and effectiveness, with the subsequent recommendation being graded as risk based (see Delivery 3b/c)</p>					<p>allow an accurate summary. They are able to focus on the three weaker assessments as those areas which have significant issues/ risks which need to be addressed. In this sense the current 5 level grading system provides a clear picture of where action is necessary.</p> <p>However, current thinking is to grade reviews based on levels of assurance.</p>
<p><b>DELIVERY</b></p> <p><b>Focus on pre-identified controls</b></p> <p>Assignments are dominated by previously identified controls emanating from CIPFA control matrices which are then tested to specified testing levels rather than provide focus on significant risk and associated key controls</p>	<p>Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee.</p> <p>Assignment briefs should therefore reflect assessment of risks as defined within the Councils risk impact definitions and then</p>	Part	IAC Manager/ Senior Auditors	Ongoing	<p>The basis of most test schedules have been derived from CIPFA control matrices and therefore cover the most significant risks as well as a range of other controls. The audit testing to be undertaken is discussed with the relevant manager at the start of the audit and updated following these discussions to include any concerns/ areas of risk identified by the manager. The test schedules also cover areas</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>identified and evaluated as part of the documentation process. Benefits would be achieved through increased focus on agreed “local” key controls relating to the business critical risks and then tested according to the materiality of their contribution to the Council’s risk management framework. Whilst the current testing is robust, documented and well evidenced it may not provide assurance relating to the most significant risks to which the service is exposed.</p>	<p>consider the controls that are required to mitigate that risk within the risk appetite of the Council.</p> <p>An example risk based Assignment Brief is included as Appendix 2.</p>				<p>that may not be “major” risks but are non the less still important.</p> <p>Audit briefs and opening meetings with managers can be developed to focus more on risk areas and more specific links to operational risk registers and service plans. Audit test schedules to continue to be adapted to reflect these risks.</p> <p>Consideration will be given to further risk training for the audit team.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p><b>DELIVERY</b></p> <p><b>Methodology and use of walk-through tests</b> For core financial systems, systems documentation exists and is well understood supported by flowcharts, in accordance with para 8.1.1 of the Internal Audit Manual. For other audits whilst it is accepted the system notes exist mostly in the form of notes within the evidence collected, files do not contain an outline of the system as specified in the internal audit manual as stage 4 of the above and there is therefore a reliance on previously constructed testing schedules to define the scope of the audit. As the risk environment, service provision, staff in post and therefore systems change it is considered important that each audit commences with providing a documented oversight of the component parts of the system in which key controls that are to be relied upon for the purposes of providing an opinion are documented and tested using a walk through test.</p>	<p>a. Auditors should complete at least a system note at the start of each audit in order to outline an overview of the processes being reviewed in order to aid understanding and the structure of the audit and provide an understanding of the system to aid supervision and the efficient conduct of future audits.</p>	Part	All audit staff	April 17	<p>A permanent file will be set up for each area of review in to which system notes, flow charts, staffing structures etc. will be saved.</p> <p>Sample documentation and system, notes are already routinely placed on file to evidence the processes in place whilst undertaking sample testing.</p>
	<p>b. The internal audit manual should specify the minimum standards requirements for file structure and content for electronic files in order to aid supervision. These may be planning and communication, systems documentation and identified procedures, fieldwork (control summaries supported by testing and evidence) and reporting. (Refers to section 9.3.3 of the internal audit</p>	Y	IAC Manager	August 17	<p>The structure of the electronic files for each audit review will be developed to ensure a consistency of approach amongst the Consortium members.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
	manual)				
<b>DELIVERY</b>  <b>Audit Opinions - Recommendations</b> These are currently developed and assessed by each internal auditor, and reviewed by the Audit Manager prior to release of the draft report (sometimes subsequent to discussion of findings at an 'exit meeting' at which the grading of recommendations may have been discussed). This system relies on personal judgement	a)Audit supervisors should formally agree the grading of recommendations prior to the conduct of exit meetings.	Y	IAC Manager/ Senior Auditors	Ongoing	This is already completed as part of the file review process.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>related to 'Priority' for which no definition exists to articulate the meaning of High, Medium or Low.</p> <p>The definitions used by internal audit to support opinions therefore lack clarity and should be more closely linked with each Authority's risk appetite and the definitions of impact risk being used to embed risk management thinking within the organisation. The basis for grading of recommendations should as a result influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'.</p>	<p>b) Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting</p>	Y	IAC Manager	April 17	<p>Definitions will be developed for High, Medium and Low internal audit recommendations linked to risk. This will aid in reducing subjectivity and increase consistency.</p> <p>It is also important that the audit reports identify and report all significant risk. Management can then take an informed view as to whether to accept or reject such risk, and to ask the question as to whether the risk appetite should be reviewed.</p>
	<p>c) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in a side letter to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.</p>	N			<p>This approach would lead to the risk that low priority recommendations are not even considered by managers. Managers can already disagree recommendations if they feel the risk is too low given the resource available etc.</p> <p>It is up to managers to set the risk appetite of the Council.</p>

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p><b>DELIVERY</b></p> <p><b><i>Audit Opinions - Overall opinions</i></b>            These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and IACM of the draft report prior to release.            The overall opinion also appears to be loosely based on the aggregate number of recommendations made and not the level of risk identified. The current is for the opinion to reflect the reliability of the internal controls operating in the system / area reviewed was assessed as good* / satisfactory* / marginal* / unsatisfactory* / unsound*.</p>	<p>a) The grading of recommendations should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon.            Best practice would reflect:            - Where a fundamental risk (red) is identified that no/limited assurance is given.            - Where significant risks (amber) are identified then adequate assurance is given, and            - Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given</p>	Part	IAC Manager	April 17	Definitions will be developed for the use of High, Medium and Low when grading recommendations. This will help to ensure consistency based on levels of risk.

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
Wider best practice provides for three levels of opinion being substantial, adequate or limited as this provides a clearer indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.	b) Reducing the levels of opinion to three would provide a clearer indication of the assurance being provided and represent a more straight-forward approach for internal audit staff to administer.	Part	IAC Manager	April 17	Consideration will be given to alternative wording for audit opinions based on assurance and risk levels. The Midlands Audit Group has been surveyed to establish the levels of audit opinion utilised by other audit sections. After consultation with client officers and consortium staff it is felt that four levels of opinion is more appropriate.  A report will be taken to the January 17 Audit Committees in respect of a proposed revised levels of opinion based on assurance levels.
<b>DELIVERY</b> <b>Report format</b> The Consortium currently provides a detailed report which is then summarised appropriately to inform other meetings within the Council at Officer and Member levels. It would not be appropriate to comment negatively on this approach particularly as positive feedback regarding internal audit performance can be seen in the return of satisfaction surveys during 2016/17 and was gained	The Consortium should consider whether focusing on risk as a basis for reporting would allow movement towards an 'executive summary' approach which highlights only significant risks. This may help further build the profile of internal audit and allow greater efficiency within the team through reducing the time consumed in report production and clearance.	N			Managers have not liked this approach in the past as reports were seen as focusing purely on the negative.  Current feedback from customer satisfaction surveys on the current reporting style is positive.  Where a marginal or worse conclusion is reached the main issues / risks will be summarised in a paragraph under the conclusion. The majority of reports are already short.



Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
in meetings with officers as part of the EQA. However, internal audit reports are 'lengthy' and in developing an increasingly risk based approach consideration could be given to moving to an exceptions based executive summary highlighting significant risks.					
<b>DELIVERY</b> <b>Auditee feedback</b> At the time of the review feedback questionnaires had been received in respect of 24 audits undertaken during 2016/17, all received scores in excess of 80% with the only areas showing as requiring improvement relating to:- <ul style="list-style-type: none"> <li>- Were recommendations practical and useful, and</li> <li>- Sufficient to remedy weaknesses identified in the report</li> </ul>	The IACM should continue to monitor feedback as it moves towards an increasingly risk focused so that as changes are made to internal audit practices; these can be aligned with improvements in the way internal audit value is perceived.	Y	IAC Manager	March 18	All customer satisfaction surveys are reviewed with a view to taking on board any learning points.  Surveys are also used as a discussion point with Auditors at EPD's and 1:1's  As the Consortium further develops risk based auditing the customer satisfaction survey will be reviewed to ensure that it is still collecting relevant feedback.
<b>DELIVERY</b> <b>Annual Report</b> The IACM produces an Annual Audit report which summarises	In alignment with recommendations made earlier the internal audit plan should be constructed so that the IACM is able to	Y	IAC Manager	2016/17 audit opinion	The internal audit work during the year is used as the basis upon which to formulate the annual audit opinion. The audit plan is risk based and devised to cover a broad range of the

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<p>the years' work and includes analysis of performance. The opinion reflects <i>'In respect of the main financial systems, Appendix 1 shows that internal controls were found to be operating satisfactorily or well, giving an overall confidence in the internal control system operating in relation to these systems'</i>. The form required by the PSIAS requires a wider statement which <i>'must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board'</i>.</p>	<p>provide a wider assurance to each Authority in support of the governance statement.</p> <p>Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of issues being raised the range of assurances available is essential in order to meet this broader scope.</p> <p>In this way the Annual report can be used to support the Council's Governance Statement.</p>				<p>Council's activities and functions. This enables the IAC Manager to produce an opinion on the control environment as a whole.</p> <p>However, the annual internal audit opinion will be developed to take in to account other significant risks that may not have been covered by the audit plan in a particular year. The Annual Governance Statement and strategic risk register will be utilised to do this.</p>
<p><b>DELIVERY</b></p> <p><b>Reports produced by the IACM</b> It is considered good practice that the IACM is involved in conducting assignments particularly in relation to high risk areas but in such circumstances appropriate arrangements should be made for 'supervision' and clearance of reports.</p>	<p>In circumstances where the IACM undertakes a review personally arrangements should be made for a second person review of the file.</p>	Y	Senior Auditors	Immediate	Where the IAC Manager undertakes an audit, a quality review will be undertaken by a senior Auditor

Issue Identified	Recommended Action – Red, Amber Green	Agreed	To be Implemented By:		Comments
			Officer	Date	
<b>DELIVERY</b>  <b>Derbyshire Dales DC</b> Whilst it is recognised that arrangements for this Council are outside of the core Consortium arrangements. It would be beneficial for the established internal audit processes contained within the Internal Audit Manual to be applied as this will aid consistency of approach, training and supervision.	Standardised procedures should be implemented regarding: <ul style="list-style-type: none"> <li>- The use of Audit Briefs,</li> <li>- Working paper review, and</li> <li>- The approach to IT audit</li> </ul>	Y	IAC Manager and Senior Auditor	Immediate	

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## For publication

### **PROPOSED NEW SYSTEM OF INTERNAL AUDIT CONSORTIUM OPINION CLASSIFICATIONS**

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Meeting:	Standards and Audit Committee
Date:	8 <sup>th</sup> February 2017
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

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## **For publication**

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### **1.0 Purpose of report**

- 1.1 To report to Members for consideration and approval a revised system of classification for the internal audit opinions issued as the conclusion for each report issued.

### **2.0 Recommendations**

- 2.1 That the revised internal audit report opinion classifications be introduced from the commencement of the 2017/18 internal audit plan year.

### **3.0 Report details**

- 3.1 The current internal audit report classifications have been utilised since the commencement of the Consortium and are as detailed in the table below:-

<b>Control Level</b>	<b>Definition</b>
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

- 3.2 Whilst the present system of classification is “tried and tested”, Current best practice is to focus more on the level of assurance that can be given with regard to the area being audited. This links more closely with the annual governance statement.
- 3.3 The external reviewer of internal audit has also recommended considering moving towards providing levels of assurance linked to risk rather than retaining the current classifications.
- 3.4 The current system does have some disadvantages, such as;
- The words “satisfactory” and “marginal” have a negative tone
  - It is relatively difficult to distinguish between the lowest 2 categories of “unsatisfactory” and “unsound” with the unsound category being rarely used.
- 3.5 The Midlands Audit Group was surveyed to establish the opinion classifications that are utilised by other Council’s. Whilst there were numerous slight variations, the common theme was that the majority use wording based around levels of assurance ranging from “full” “substantial” “moderate” “reasonable” “limited” “no” assurance etc.
- 3.6 Following a review of the systems of classification used by other Council’s and discussions with the Consortium’s client officers it is proposed that a new system be adopted, based on four levels of classification focused on the level of assurance that can be provided.

3.7 The proposed classifications are as follows:-

<b>Assurance Level</b>	<b>Definition</b>
<b>Substantial Assurance</b>	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
<b>Reasonable Assurance</b>	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
<b>Limited Assurance</b>	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
<b>Inadequate Assurance</b>	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

3.7 The new system of classifications would be used on all internal audit reports issued and in the summary/annual reports brought to this committee.

#### 4.0 **Human resources/people management implications**

4.1 There are no Human Resources Implications.

#### 5.0 **Financial implications**

5.1 There are no financial implications.

#### 6.0 **Legal and data protection implications**

6.1 There are no legal or data protection implications.

## 7.0 **Consultation**

7.1 Not Applicable

## 8.0 **Risk management**

8.1 Updating the internal audit opinion classifications will help to ensure that the Council continues to receive an internal audit service that complies with best practice.

## 9.0 **Equalities Impact Assessment (EIA)**

9.1 Not applicable.

## 10.0 **Alternative options and reasons for rejection**

10.1 The alternative option would be to retain the current system of classifications however current thinking has moved on to assess systems in terms of assurance levels. Retaining the current system would leave the internal audit consortium open to criticism when further external reviews take place.

## 11.0 **Recommendations**

11.1 That the revised internal audit report opinion classifications be introduced from the commencement of the 2017/18 internal audit plan year.

## 12.0 **Reasons for recommendations**

12.1 To ensure that the Internal Audit Consortium continues to operate in line with accepted best practice.



### **Decision information**

<b>Key decision number</b>	N/A
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	This report links to the Council's priority to provide value for money services.

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
<b>Jenny Williams – Internal Audit Consortium Manager</b>	<b>01246 345468  Jenny.williams@chesterfield.gov.uk</b>
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	

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## For publication

### **Summary of Internal Audit Reports Issued 2016/17**

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Meeting:	Standards and Audit Committee
Date:	8 <sup>th</sup> February 2017
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

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## **For publication**

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### **1.0 Purpose of report**

- 1.1 To present for members' information a summary of Internal Audit Reports issued during the period 5th November 2016 – 13th January 2017 in respect of reports issued relating to the 2016/17 internal audit plans.

### **2.0 Recommendations**

- 2.1 That the report be noted.

### **3.0 Report details**

- 3.1 The Public Sector Internal Audit Standards require that the Internal Audit Consortium Manager reports periodically to the Standards and Audit Committee in respect of performance against the audit plan. Significant risk and control issues should also be reported.

- 3.2 Attached, as Appendix A, is a summary of reports issued covering the period 5th November 2016 to 13th January 2017, for audits included in the 2016/17 internal audit plan.
- 3.3 As requested previously, Members have been provided with a copy of the unsatisfactory report issued in respect of health and safety.
- 3.4 The Appendix also shows for each report a summary of the scope and objectives of the audit, the overall conclusion of the audit and the number of recommendations made / agreed where a full response has been received.
- 3.5 The conclusion column of Appendix A gives an overall assessment of the reliability of the internal controls examined in accordance with the following classifications:

<b>Control Level</b>	<b>Definition</b>
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

- 3.6 In respect of the audits being reported, it is confirmed that there were no issues arising relating to fraud that need to be brought to the Committees attention.

#### 4.0 **Human resources/people management implications**

- 4.1 There are no Human Resources Implications.

## 5.0 **Financial implications**

5.1 There are no financial implications.

## 6.0 **Legal and data protection implications**

6.1 There are no legal or data protection implications.

## 7.0 **Consultation**

7.1 Not Applicable

## 8.0 **Risk management**

8.1 The production of this report ensures that Members charged with governance are aware of any internal control weaknesses or fraud identified by internal audit.

## 9.0 **Equalities Impact Assessment (EIA)**

9.1 Not applicable.

## 10.0 **Alternative options and reasons for rejection**

10.1 The report is for information.

## 11.0 **Recommendations**

11.1 That the report be noted.

## 12.0 **Reasons for recommendations**

12.1 To inform Members of the internal audit reports issued in order that the strength of the internal controls in place can be assessed.

### **Decision information**

<b>Key decision number</b>	N/A
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	This report links to the Council's priority to provide value for money services.

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
<b>Jenny Williams – Internal Audit Consortium Manager</b>	<b>01246 345468  Jenny.williams@chesterfield.gov.uk</b>
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	
Appendix A	Summary of Internal Audit Reports Issued

**Chesterfield Borough Council – Internal Audit Consortium**

**Report to Standards and Audit Committee**

**Summary of Internal Audit Reports Issued 2016/17– Period 5th November 2016 – 13<sup>th</sup> January 2017**

Report Ref No.	Report Title	Scope & Objectives	Overall Opinion	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
19	Health and Safety	To ensure that there are adequate corporate systems in place to meet the Council's health and safety obligations	Unsatisfactory	18/11/16	9/12/16	18/01/17	12 (5H 6M 1L)	12
20	Car Park Income	To ensure that all income is banked and that income records are complete	Satisfactory	23/11/16	14/12/16	14/12/16	6 (3M 3L)	6

Report Ref No.	Report Title	Scope & Objectives	Overall Opinion	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
21	Homelessness	To examine the controls in place in respect of ascertaining eligibility for homelessness, temporary accommodation including bed and breakfast, income from housing benefit, budget monitoring and homelessness prevention	Satisfactory	2/12/16	23/12/16	11/01/17	6 (1H 3M 2L)	6
22	BACS	To ensure that all BACS transmissions are accurate, secure and timely	Satisfactory	9/12/16	6/1/17	6/01/2017	3 (2M 1L)	3
23	Housing Rents Accounting System	To ensure that housing rents are set accurately and collected promptly	Satisfactory	5/01/17	26/1/17		10 (2H, 6M, 2L)	Note 1
24	Markets Income	To ensure that market income is collected and banked correctly	Satisfactory	5/01/17	26/01/17		4 (1H 2M, 1L)	Note 1

Note 1 The response was not due at the time of writing the report

### **Health and Safety**



The key points raised in respect of the health and safety audit were:-

- In addition to the main health and safety policy there are around 38 other policies such as legionella control guidance and safety inspection guidance, most of these are overdue for review.
- There is no central record or monitoring to ensure that staff have received appropriate health and safety training.
- Health and safety audits are not being undertaken
- The Corporate asbestos management plan requires review and a programme of inspections and surveys to make a materials assessment for asbestos should be commenced as soon as possible.
- The health and safety unit is not always consulted at an early stage of organisational changes that may have health and safety implications
- Contractors are not always being added to the contracts health and safety competency and performance register.

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**Bolsover, Chesterfield and North East Derbyshire District  
Councils'**

**Internal Audit Consortium**

**Internal Audit Report**

<b>Authority:</b>	<b>Chesterfield Borough Council</b>
<b>Subject:</b>	<b>Health and Safety</b>
<b>Date of Issue:</b>	<b>18<sup>th</sup> November 2016</b>

<b>Report Distribution:</b>	<b>Health &amp; Wellbeing Manager</b>
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## INTERNAL AUDIT REPORT

### HEALTH AND SAFETY

#### Introduction

A routine internal audit of the procedures relating to the internal control operating in respect of Corporate Health & Safety Unit has recently been completed.

#### Scope and Objectives

The purpose of the audit examination was to report a level of assurance on the adequacy of corporate systems in place to meet the Council's statutory obligations on health and safety as employer and provider of services and facilities to customers and the public. Areas reviewed as part of this audit included: -

- Overall allocation of responsibility
- Compliance with Health and Safety legislation
- Comprehensive policies are in place
- Qualifications of Health and Safety employees
- Training provided and records maintained
- Performance Management / Benchmarking
- Accident Reporting
- Health and Safety inspections / audits
- Contractor Management
- Health and Safety budget

#### Conclusion

The conclusion of the audit was that the reliability of the internal controls operating in the system reviewed was assessed as **unsatisfactory** (Unacceptable risks identified, changes should be made).

It is appreciated that the understaffing/restructure and large projects requiring the input of the Health and Safety Unit such as the Town Hall restack, corporate stock asbestos survey and demolition of the old Queens Park Sports Centre has had an adverse effect on the performance of the Health and Safety Unit.

The Health and Wellbeing Manager is aware of the issues and challenges facing the Health and Safety Unit and is in the process of addressing these matters.

## Findings and Recommendations

### Overall Responsibility

1. The Council holds a quarterly Health and Safety Committee meeting which reports to the Council Employment and General Committee. The Committee is made up of elected Members of the Council, Trade Union representatives and Management. At the time of the audit the last Council Health and Safety Committee was held on 28<sup>th</sup> July 2016.
2. The purpose and objectives of the Committee are as follows: -
  - To ensure a positive culture of health and safety across the Council by promoting co-operation between the Council, as an employer, and its employees in instigating, developing and carrying out measures to ensure the health, safety, welfare and wellbeing at work of employees.
  - To act as a focus for employee participation in the promotion of health and safety as work, the prevention of accidents and incidents and the avoidance of work related ill health.
  - To provide a strategic overview of health and safety in the organisation.
  - To ensure the Council complies with all legal requirements and the requirements set out in the corporate health & safety policy.
  - To provide scrutiny and direction for the work of the Occupations Health & Safety Improvement Group (OHSIG)

### Compliance with Health and Safety Legislation

3. The Corporate Health and Safety Advisor monitors changes to Health and Safety legislation by way of the Health & Safety Executive (HSE) website/bulletins and professional journals. When new and amended legislation comes into force and when the HSE issues new and amended approved codes of practice, the Health and Safety Unit updates the Council's corporate H&S arrangements to ensure compliance with the changes.

### Health and Safety Policies

4. The authority's Health and Safety policy can be readily obtained from the Aspire Intranet. The policy is dated 2015 and is next due for review in 2017. The policy outlines: -
  - The responsibilities of its management (including senior management, service managers and supervisors) and members for implementing the policy.
  - Requirements of employees in co-operating and compliance with the policy.
  - Requirements of Safety Representatives
  - Role of Corporate Health and Safety Advisor.
  - Contractors / other persons working on Council Premises
  - Arrangements for implementing the policy

5. Other policies such as working with display screen equipment, fire safety, driving to work etc have links on the Aspire intranet; however no corporate policies are attached to these links.
6. The Corporate Health and Safety Advisor confirmed as part of the audit that policies, procedures and protocols are updated every two years or sooner if changes to legislation or HSE guidance require it.
7. From a review of the Aspire Intranet there are very few policies available for employees to access. Policies maintained by the Health and Safety Unit are held on the "P" drive. From a review of the current policies approximately 34 out of the 38 policies (covering such areas as legionella control guidance, bomb threat guidance and safety inspection guidance) are due for review with the majority last revised in 2013.

	<b>Recommendations</b>
<b>R1</b>	A review of all Health and Safety policies, protocols and guidance should be undertaken to ensure they are up to date and reflect the most current legislation and approved codes of practice <b>(Priority: High)</b>
<b>R2</b>	To ensure all Health and Safety related information and guidance is available to employees the Intranet should be updated to contain links to relevant policies <b>(Priority: Medium)</b>

### Health and Safety Employees

8. The Corporate Health and Safety Advisor confirmed that they are a Chartered Member of the Institute of Occupational Safety and Health. As part of the membership regular evidence of Continuous Personal Development has to be provided.

### Training

9. The Health and Safety Unit currently provides accredited and general awareness Health and Safety training corporately. Training is either provided on-line or classroom based. Training with an on-line training provider has ceased due to an approximate 18 month delay in procuring a new provider that includes both Human Resources and Health and Safety training. It is anticipated that on-line training will recommence early 2017. There has been no routine Fire Awareness, Asbestos or Legionella training in this 18 month period only where requested,
10. On-line training results provided by the previous online training provider (Frontline Skills) showed that a large number of employees had not completed the training, for example: -

Programme Name:	<b>FIRE RISK AWARENESS 2014/15</b>
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Start date:	<b>01/04/2014</b>
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End date:	<b>Not finished</b>
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Total number of users:	<b>853</b>
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Users that have completed the programme:	<b>121</b>
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Users that have started but not finished:	<b>1</b>
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Users that have not started:	<b>731</b>
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Users that are not in the programme:	<b>189</b>
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However; the list of employees not having completed the programme may include errors and not be accurate.

11. Previously Service Managers have been requested to complete a corporate H&S training needs form that identifies staff requiring H&S training or refresher training. The Internal Audit Consortium Manager confirmed that she was last requested to complete a training needs form in 2014.

	<b>Recommendations</b>
<b>R3</b>	Generic training needs for all employees should be reviewed to ensure training is up to date ( <b>Priority: Medium</b> )

12. All new employees are required to attend a Corporate Health and Safety Induction. A sample of 10 new starters was selected from records held by Human Resources. It was confirmed that 8 of the new starters were required to undertake the Health and Safety Induction (one omitted because employed on a zero hours contract and the other employee had moved from another department so therefore had previously attended an H&S Induction).

13. It was confirmed all employees had received Health and Safety Induction training; however it was identified that for training held on 23<sup>rd</sup> May 2016 the SHE system had not been updated to record the training against the individual employee record. Discussions with the Corporate Health and Safety Advisor identified that the procedure of sending the attendance list to the relevant Admin Officer for input into the SHE had failed.

	<b>Recommendations</b>
<b>R4</b>	It must be ensured all corporate Health & Safety training is recorded on the SHE System against the individual employee record ( <b>Priority: Medium</b> )

14. Periodic training such as DSE (Display Screen Equipment) and Manual Handling are provided to employees. The current method of documenting training courses attendance is to transfer information recorded on attendance tick sheets completed at training sessions onto personnel records held with the SHE system. The Corporate Health and Safety advisor confirmed it is the responsibility of the relevant Service Manager to ensure any service specific Health and Safety training is included on the SHE system.
15. As part of the audit services specific training requirements and arrangements for Queens Park Sports Centre and Spire Pride/Landscape Services were reviewed. It was confirmed that specific training had been identified as was being undertaken and recorded, for example pool life guard training, pool plant and equipment awareness, driver certificates, use of cutting machinery etc.
16. Due to the complexities of recording pool life guard training the SHE system is not utilised by the Sports Centres however the Operations Manager confirmed that comprehensive records and spreadsheets are maintained.
17. Discussions with the Health and Safety Quality Officer within Environmental Services confirmed that all training received by Spire Pride / Landscape Services employees is recorded on the SHE system.

#### Performance Management

18. No performance indicators have been set for the Health and Safety Unit since the Council ceased using the electronic Performance Plus system. A 3-year corporate H&S improvement plan was completed in 2015, it was evidenced that performance against the improvement programme is reported and considered at the quarterly Council Health and Safety Committee. The Corporate Health and Safety Advisor stated that a new method of measuring performance has yet to be agreed.

	<b>Recommendations</b>
<b>R5</b>	Procedures for monitoring and measuring performance in respect of the Corporate Health and Safety Unit should be identified and reported on a periodic basis ( <b>Priority: Medium</b> )

#### Accident Reporting

19. All work related accidents and incidents, including road traffic accidents, near misses, acts of violence, damage to property, environmental incidents, cases of work related ill health and dangerous occurrences, must be reported immediately by the employee involved to their line manager.



20. The line manager is responsible for recording the accident or incident on the SHE system, for ensuring a full investigation into the accident or incident is undertaken and for inviting the relevant Employee health & safety representative to take part in the investigations.
21. A sample of 10 reported accidents recorded within the SHE system were selected for further review.
22. Three of the incidents were identified as being RRIDOR (HSE) reportable, it was confirmed in that all three incidents had been reported and a HSE reference number had been included on file. The following incidents are classed as RIDDOR reportable: -
  - Fatality
  - Major injury
  - employee absent for over 7 days
  - Dangerous occurrences
  - Diseases
  - Non-employee non-fatal accidents resulting in hospital treatment
23. For seven of the incidents investigations, conclusions and actions had been recorded on the incident forms. For the remaining three incidents investigations were ongoing. The Corporate Health and Safety Advisor highlighted that it is only stipulated that investigations must be undertaken as soon as possible following an incident and that the employee safety representative must be invited to take part in the investigation.
24. The Corporate Health and Safety Advisor confirmed that a summary of accidents is reported every two weeks to the relevant CMT manager and a summary to the quarterly Council's Health and Safety Committee.

Workplace Inspections

25. A three year programme of Health and Safety audits commenced in 2016; however due to limited resources only one audit has been commenced (Environmental Services) and at the time of the audit had not been concluded.
26. Due to many departments undergoing a restructure including the Health and Safety Unit and the changes to the Corporate Management Team the Corporate Health and Safety Advisor highlighted that the programme is likely to be postponed until the new-year. It was confirmed that no Health and Safety audits were undertaken in 2015.

	<b>Recommendations</b>
<b>R6</b>	It is essential that the programme of Health and Safety audits are recommenced as soon as possible <b><i>(Priority: High)</i></b>

27. Asbestos management arrangements for non-domestic properties were reviewed as part of this audit. It was confirmed that the Council contracted Savills in 2015 to support activities on asbestos as Kier are not able to support this work as it was not part of the original specification and they do not carry adequate insurance to deliver these services on the Council's behalf. Currently a spreadsheet is maintained detailing all non-domestic properties and regularly updated in response from the latest information provided by Kier Asset Management and the Council's external asbestos survey consultants. Going forward this will be recorded and managed through the keystone asbestos software.
28. It was confirmed that based upon the Asbestos Management Compliance Review carried out by Savills an Asbestos Management Steering Group was established under the direction of the Health and Safety Committee to deliver the action plan developed as part of the review. This Group is currently progressing the action plan and the two main actions remaining are to undertake a comprehensive re-survey of the corporate property portfolio and update the existing Asbestos Management Plan. A new programme of re-surveys is currently being finalised and will be undertaken by the external consultants (Environmental Essentials) under the direction of Savills.

	<b>Recommendations</b>
<b>R7</b>	It is essential that the Corporate Asbestos Management Plan is reviewed as soon as possible <b>(Priority: High)</b>
<b>R8</b>	It is essential that the programme of inspections and surveys of the Council-owned non-domestic premises to make a materials assessment for asbestos is commenced as soon as possible <b>(Priority: High)</b>

29. A new programme of re-surveys is currently being undertaken by the external consultants (Environmental Essentials)
30. The Corporate Health and Safety Advisor has no input in to the arrangements for managing asbestos in domestic properties; however the Health and Safety Unit and Housing Management do work together on the Asbestos Management Steering Group.
31. The Asset Management Co-coordinator (Housing) confirmed that communal areas within domestic properties are inspected annually by an external provider under the direction of Savills. Details of all inspections are logged on the Keystone system. It was also confirmed that prior to any capital improvements being undertaken to a domestic property (i.e. kitchen / bathroom improvements) an asbestos survey is completed by an external provider (currently Armstrong and Young)
32. Testing for Legionella for all non-domestic properties is undertaken by an external contractor (Hydro X). Results and testing anniversaries are monitored and arranged by Kier.

33. It was verified that a spreadsheet is maintained for all properties and details what type of testing is required. Certificates of testing are produced by Hydro X and are either retained within the property file or scanned into the asset management system.

34. For a sample of 5 premises it was confirmed that testing had been undertaken

### Organisational Development

35. Discussions with Corporate Health and Safety Advisor confirmed that the Health and Safety Unit are often involved and notified of Organisational developments with advice and assistance being given where required.

36. However it is felt that in some instances the Healthy and Safety Unit has not been involved in early stages of major developments which have resulted in additional costs to the authority and delays in projects commencing. The Corporate Health and Safety Advisor highlight the Town Hall restack and the demolition of the old Queens Park Sports Centre as two examples.

	<b>Recommendations</b>
<b>R9</b>	Closer working between the Health and Safety Unit and other Council departments / Union Health and Safety representatives must take place during the early stages of Organisational developments e.g. office moves / structural changes <b>(Priority: High)</b>

### Benchmarking

37. The Corporate Healthy Safety Advisor confirmed that no benchmarking takes place. Many neighboring authorities (Bassetlaw, NEDDC, and Bolsover DC) use the electronic reporting SHE system to record incidents and accidents so the possibility of being able to compare accidents rates is available.

	<b>Recommendations</b>
<b>R10</b>	The possibility of benchmarking against other local authorities should be considered <b>(Priority: Low)</b>

### Contractor Management

38. In all contracts, it is the Council's and the contractor's legal responsibility to ensure health and safety roles are identified and responsibilities clarified to reduce the risks of harm. The code of practice for the management of contractors working for or on behalf of the Council is available on the Aspire Intranet.

39. It states that the Council will maintain a Contracts Health and Safety Competency and Performance Register and will be regularly updated to take into account the outcome of any monitoring activities.
40. At the Council Health and Safety Committee held on 28<sup>th</sup> July 2016 concerns were raised regarding contractors were still not being input onto the register (this matter had also previously been raised at the January and April meetings)
41. It was proposed that a sub group of the committee would be set up to look at the process for contractor management and to identify if it could be strengthened.
42. At the time of the audit it was confirmed that a sub group had not been established and that some contractors working on behalf of the authority were being omitted from the register, for example an external contractor undertaking asbestos surveys at the old Queens Park Sports Centre had not been listed.

	<b>Recommendations</b>
<b>R11</b>	It must be ensured that the Managing contractors code of practice and related procedures must be adhered to. If departmental failings are identified the appropriate reminders / training should be given <b>(Priority: High)</b>

#### Budget Provision

43. The Health and Safety Units budget provision for 2016/17 was reviewed by obtaining a cost centre report from the Agresso system (cost centre 0430). It was identified that annual budgeted position (2016/17) for the Health and Safety Unit was a small deficit of £1,260, with the majority of expenditure being incurred by the unit being recharged to other internal departments.
44. As at period 7 (October 2016) the significant variances identified were: -
- General salaries £7,000 adverse variance
  - Professional Services; actual spend to date £14,903 against and annual budget of £9,600
45. Discussions with Accountancy revealed that salary costs should be on target against budget by the year-end; however professional services costs could continue to increase with additional fire risk assessments being required.

	<b>Recommendations</b>
<b>R12</b>	The Health and Safety Units budget should be closely monitored with adverse variances in respect of professional fees having already being identified. The Health and Wellbeing Manager should continue to investigate the possibility of the virement / centralisation of budgets regarding health and safety expenditure ( <b>Priority: Medium</b> )

46. It was identified that service specific budgets are held for individual departmental training requirements.

#### Acknowledgement

47. The auditor would like to thank the Health and Wellbeing Manager and the Corporate Health and Safety Advisor and his staff for their helpful assistance during this audit.

## Internal Audit Report – Implementation Schedule

<b>Report Title:</b>	Health and Safety	<b>Report Date:</b>	18 <sup>th</sup> November 2016
		<b>Response Due By Date:</b>	9 <sup>th</sup> December 2016

Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Comments
			Officer	Date	
<b>R1</b>	A review of all Health and Safety policies, protocols and guidance should be undertaken to ensure they are up to date and reflect the most current legislation and approved codes of practice.	High	√	<div style="display: flex; flex-direction: column; gap: 10px;"> <div style="display: flex; justify-content: space-between;"><span><b>MJ</b></span><span><b>July '17</b></span></div> <div style="display: flex; justify-content: space-between;"><span><b>MJ</b></span><span><b>Dec '16</b></span></div> <div style="display: flex; justify-content: space-between;"><span><b>H&amp;S Cttee</b></span><span><b>Apr '17</b></span></div> </div>	<p>The main health and safety policy is reviewed every two years and is due for review in 2017. There are an additional 38 supporting policies and procedures which have not been reviewed since 2013 and the need for all of these processes and policies should be reviewed.</p> <p>A list of all policies and processes along with the date of issue shall be produced.</p> <p>This list shall be reviewed and a prioritized plan for review or deletion shall be produced. This will have a significant resource impact.</p>
<b>R2</b>	To ensure all Health and Safety related information and guidance is available to employees the Intranet should be updated to contain links to relevant policies.	Medium	√	<b>MJ</b> <b>Dec '16</b>	Existing policies will be loaded onto aspire with a note clarifying that they are the current versions and due for review. Subsequent amended versions will be loaded onto aspire once agreed by the Health & Safety Committee.
<b>R3</b>	Generic training needs for all employees should be reviewed to ensure training is up to date.	Medium	√	<b>MJ</b> <b>Feb '17</b>	The responsibility for ensuring training is identified and implemented sits with the relevant manager. Generic training will in future be provided through the on-line Learning Pool tool which will become live in January 2017. The generic training needs will be reviewed as part of the roll-out of Learning Pool.

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Comments
				Officer	Date	
<b>R4</b>	It must be ensured all corporate Health & Safety training is recorded on the SHE System against the individual employee record	<b>Medium</b>	√	<b>KH/MJ</b>	<b>Mar '17</b>	There is a need to ensure that training is recorded in a central location and the circumstances are changing with the introduction of Learning Pool. The view from HR colleagues is that all training should be held on Resource Link. HR will review the mechanism for drawing information from Learning Pool to ensure there is a central comprehensive record. All bespoke training for health and safety issues should be held in one place and it would appear that Resource Link is the most appropriate repository.
<b>R5</b>	Procedures for monitoring and measuring performance in respect of the Corporate Health and Safety Unit should be identified and reported on a periodic basis.	<b>Medium</b>	√	<b>MK/ H&amp;S Cttee</b>	<b>Jun '17</b>	There is an on-going review of the role of health and safety unit and the role of the improvement plan under the direction of the Health & Safety Committee. The current improvement plan is also being reviewed and new performance measures will be considered by the Health & Safety Committee alongside development of strategic aims and objectives.
<b>R6</b>	It is essential that the programme of Health and Safety audits are recommenced as soon as possible.	<b>High</b>	√	<b>MK</b>	<b>Mar '17</b>	There is currently insufficient resource in the health and safety unit to address existing urgent and priority issues including the town hall restack and on-going asbestos issues. The role of auditing is accepted as an important toll to monitor compliance. The resources available within the health and safety unit need to be reviewed.
				<b>CMT / H&amp;S Cttee</b>	<b>Jun '17</b>	The audit programme needs to be reviewed by CMT and the Health & Safety Committee as part of a wider review of the role and functions of the health and safety unit.

	Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Comments
				Officer	Date	
<b>R7</b>	It is essential that the Corporate Asbestos Management Plan is reviewed as soon as possible.	<b>High</b>	√	<b>MK</b>	<b>May '17</b>	The initial focus of the Asbestos Steering Group has been establishing a baseline assessment of the condition of asbestos in Council premises and design of a centralized recording system (Keystone). This will be a key part of the Asbestos Management Plan. The Asbestos Steering Group will oversee the development of a new Asbestos Management Plan once the survey and recording has been finalized (see R8).
<b>R8</b>	It is essential that the programme of inspections and surveys of the Council-owned non-domestic premises to make a materials assessment for asbestos is commenced as soon as possible.	<b>High</b>	√	<b>MK</b>	<b>Jan '17</b>	The survey of Council-owned non-domestic premises will be piloted to ensure the survey outputs and reporting properly integrates into the recording system. The main survey will commence after verification of the data merge into the recording system (Keystone).
<b>R9</b>	Closer working between the Health and Safety Unit and other Council departments should take place during the early stages of organisational developments e.g. office moves / structural changes.	<b>Medium</b>	√	<b>MK/ RON</b>	<b>Jan '17</b>	The Business Transformation team has introduced a Project Management Office where any project or programme goes through a 'gateway' assessment. This is designed to ensure that all relevant impacts and resource requirements are considered and provided for before the project commences. The need for health and safety involvement will be incorporated into this process.
				<b>MK</b>	<b>Dec '16</b>	Health & Safety responsibilities at CMT manager level have been clarified and where there are organizational developments that may need health and safety input, these will be highlighted at CMT and actioned accordingly.



Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Comments
				Officer	Date	
R10	The possibility of benchmarking against other local authorities should be considered.	Low	√	MK	Sep '17	Benchmarking health and safety performance is complex as it is essential that benchmarked organisations have the same mix of operations. The Health & Safety Committee have requested that key incident, accident and health statistics are reviewed and presented differently. Once this has been completed (due January 2017) trends across services will be more easily identified. Once the data has been recorded for a period to allow trends to be identified the opportunity for benchmarking will be reviewed.
R11	It must be ensured that the Managing contractors code of practice and related procedures must be adhered to. If departmental failings are identified the appropriate reminders / training should be given	High	√	MK/MJ	Mar '17	The policy and procedures for managing contractors will be reviewed as detailed in R1 above.
				MK/MJ	Jan '17	A review of the existing records for contractor assessment and inspection will be undertaken.
				MK/MJ	Mar '17	A review of the procurement methods for contractors will be undertaken with a particular focus on the training given to those employing contractors in respect of the health and safety procedures for both contracting and managing performance. Any issues identified will be reviewed and taken into account in the review of the policy and procedures.

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Comments
				Officer	Date	
R12	The Health and Safety Units budget should be closely monitored with adverse variances in respect of professional fees having already being identified. The Health and Wellbeing Manager should continue to investigate the possibility of the virement / centralisation of budgets regarding health and safety expenditure.	Medium	√	MK	Feb '17	The budgets are already monitored and any variances are analysed. There is an opportunity for centralization of some health & safety budgets for example it has been agreed that all budgets for training are centralized in an HR budget heading. Some of the items where there has been adverse variance are costs necessarily incurred for unforeseen circumstances. The budgets will be reviewed in detail as part of the budget setting for 2017/18.

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

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**Note: In respect of any High priority recommendations please forward evidence of their implementation to internal audit as soon as possible.**

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