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Date: 12<sup>th</sup> July 2021

Our Ref: VM

Dear Sir/Madam,

An extraordinary meeting of the **AUDIT & STANDARDS COMMITTEE** will be held in the Council Chamber, Town Hall, Nuneaton, on **Tuesday 20<sup>th</sup> July at 6.00 p.m.**

Please note that meetings will be recorded for future publication on the Council's website.

Yours faithfully,

BRENT DAVIS  
Executive Director - Operations

To: All Members of the  
Audit & Standards  
Committee

Councillors H. Walmsley (Chair), M. Rudkin  
(Vice-Chair), B. Beetham, T. Cooper, L.  
Downs, L. Hocking, J. Kennaugh, K.  
Kondakor, S. Markham, J. Singh, R.  
Tromans, and Mr G. Sonola

# A G E N D A

## PART I - PUBLIC BUSINESS

### 1. ANNOUNCEMENTS

To advise the meeting participants of the procedure that will be followed by the Members of the committee.

A fire drill is not expected, so if the alarm sounds please evacuate the building quickly and calmly. Please use the stairs and do not use the lifts. Once out of the building, please gather outside the Virgin Money building (formally the Yorkshire Bank) on the opposite side of the road.

Exit by the door by which you entered the room or by the fire exits which are clearly indicated by the standard green fire exit signs.

If you need any assistance in evacuating the building, please make yourself known to a member of staff.

Please also make sure all your mobile phones are turned off or set to silent.

Chair to advise the meeting that the meeting will be recorded for future broadcast.

### 2. APOLOGIES - To receive apologies for absence from the meeting.

### 3. MINUTES – To confirm the minutes of the extraordinary meeting of the Audit and Standards Committee held on 22<sup>nd</sup> June 2021, attached (**Page 5**)

### 4. DECLARATIONS OF INTEREST

To receive declarations of Disclosable Pecuniary and Other Interests, in accordance with the Members' Code of Conduct.

Declaring interests at meetings

If there is any item of business to be discussed at the meeting in which you have a disclosable pecuniary interest or non-pecuniary interest (Other Interests), you must declare the interest appropriately at the start of the meeting or as soon as you become aware that you have an interest.

Arrangements have been made for interests that are declared regularly by members to be appended to the agenda (**Page 12**). Any interest noted in the Schedule at the back of the agenda papers will be deemed to have been

declared and will be minuted as such by the Committee Services Officer. As a general rule, there will, therefore, be no need for those Members to declare those interests as set out in the schedule.

There are, however, TWO EXCEPTIONS to the general rule:

#### 1. When the interest amounts to a Disclosable Pecuniary Interest that is

engaged in connection with any item on the agenda and the member feels that the interest is such that they must leave the room. Prior to leaving the room, the member must inform the meeting that they are doing so, to ensure that it is recorded in the minutes.

2. Where a dispensation has been granted to vote and/or speak on an item where there is a Disclosable Pecuniary Interest, but it is not referred to in the Schedule (where for example, the dispensation was granted by the Monitoring Officer immediately prior to the meeting). The existence and nature of the dispensation needs to be recorded in the minutes and will, therefore, have to be disclosed at an appropriate time to the meeting.

Note: Following the adoption of the new Code of Conduct, Members are reminded that they should declare the existence and nature of their personal interests at the commencement of the relevant item (or as soon as the interest becomes apparent). If that interest is a Disclosable Pecuniary or a Deemed Disclosable Pecuniary Interest, the Member must withdraw from the room.

Where a Member has a Disclosable Pecuniary Interest but has received a dispensation from Audit & Standards Committee, that Member may vote and/or speak on the matter (as the case may be) and must disclose the existence of the dispensation and any restrictions placed on it at the time the interest is declared.

Where a Member has a Deemed Disclosable Interest as defined in the Code of Conduct, the Member may address the meeting as a member of the public as set out in the Code.

Note: Council Procedure Rules require Members with Disclosable Pecuniary Interests to withdraw from the meeting unless a dispensation allows them to remain to vote and/or speak on the business giving rise to the interest.

Where a Member has a Deemed Disclosable Interest, the Council's Code of Conduct permits public speaking on the item, after which the Member is required by Council Procedure Rules to withdraw from the meeting.

5. PUBLIC CONSULTATION - Members of the Public will be given the opportunity to speak on specific agenda items or have their submitted statement read by an officer of the Council if notice has been received.
6. EXTERNAL AUDIT PLAN – a report of the external auditors presented by representatives from Grant Thornton **(To Follow)**
7. INFORMING THE AUDIT RISK ASSESSMENT– a report of the external auditors presented by representatives from Grant Thornton **(To Follow)**
8. TREASURY MANAGEMENT MONITORING Q4 2020/21 – a report of the Head of Financial Services, attached **(Page 14)**
9. INTERNAL AUDIT ANNUAL REPORT 2020-21 – a report of the Director – Head of Audit and Governance, attached **(Page 35)**

10. INTERNAL AUDIT PLAN 2021-22 – a report of the Head of Audit and Governance, attached (**Page 52**)
11. INTERNAL AUDIT CHARTER – a report of the Head of Audit and Governance, attached (**Page 55**)
12. ANY OTHER ITEMS - which in the opinion of the Chair should be discussed as a matter of urgency because of special circumstances (which must be specified).

**NUNEATON AND BEDWORTH BOROUGH COUNCIL**

**AUDIT & STANDARDS COMMITTEE**

**22<sup>nd</sup> June 2021**

An extraordinary meeting of the Audit & Standards Committee was held on Tuesday, 22<sup>nd</sup> June 2021 in the Council Chamber, Town Hall, Nuneaton.

**Present**

Councillor H. Walmsley – Chair  
Councillor M. Rudkin – Vice-Chair

Councillors B. Beetham, T. Cooper, L. Downs, L. Hocking, J. Kennaugh, K. Kondakor, S. Markham, J. Singh and R. Tromans.

Apologies: Mr G. Sonola

**PART I – PUBLIC BUSINESS**

ASC1 **Minutes**

**RESOLVED** that the minutes of the Audit and Standards Committee meeting held on 16<sup>th</sup> March, 2021, be confirmed, and signed by the Chair.

ASC2 **Declarations of Interest**

**RESOLVED** that the Declarations of Interest for this meeting are as set out in the Schedule attached to these minutes.

ASC3 **Audit and Standards Core Work Programme 2021-22**

A report of the Executive Director (Resources) and Director – Democracy, Planning and Public Protection was presented by the Head and Audit and Governance. The report asked the committee to consider and approve the Audit and Standards Committee Core Work Programme for 2021 – 2022 after taking into consideration the purpose and functions of the Committee.

Councillor Kennaugh proposed amendments to the Core Work Programme with the suggestion of additions to the meetings in September and November. These included, an update on the Civic Hall following the previous audit, a report on delegated authority, an audit on community groups and an audit of compensation claims over the last ten years. Additionally Councillor Tromans proposed the addition of two additional reports; an audit of 106 monies and an audit of notices issued to residents by the Council.

It was decided that the proposed audit of the Civic Hall be scoped further by the Chair the Head of Audit and Governance.

**RESOLVED** that the Audit and Standards Committee Core Work Programme for 2021 – 22 at Appendix A be approved with the following additions:

- In November 2021 a report on delegated authority including ways in which it could be amended to add a requirement to consult the relevant elected members rather than rather than the current system which is optional.
- In November 2021 an audit on community groups that have been funded over the last ten years, including due diligence, what was done in advance, what follow up audits were carried out, in particular how money was spent, and also how much has been spent on these outside community groups.
- In November 2021 an audit of compensation claims in the last ten years, including compromise agreements.
- In January 2022 a report detailing an audit of 106 monies, including whether they were all collected on time, what they were for and what they were used for, over the last five years.
- In January 2022 a report of an audit of the notices issued to residents by the Council, the nature, circumstances and criteria of these notices.

ASC4 **External Quality Assessment of the Internal Audit Service**

The Head of Audit and Governance provided a report and presentation outlining the procedures followed by the internal audit team. The report provided the committee with the results of an independent external quality assessment of the internal audit service against the Public Sector Internal Audit Standards (PSIAS) carried out in February 2019.

**RESOLVED** that the results of the external quality assessment at Appendix A of the report and the procedures outlined in the presentation be noted.

ASC5 **Establishment of an Employment Committee**

The Director – Democracy, Planning and Public Protection presented a report regarding the proposal of establishing an Employment Committee.

Speaker: Mrs M. Kondakor

Councillor Kondakor requested that his vote be recorded.

Councillor Kondakor – AGAINST.

**RESOLVED that:**

- a) An Employment Committee be established for the Council
- b) Article 8 of the Council's Constitution be amended as shown in Appendix A of the report, with the amendment to include vi ( e) to commission an annual performance review of Paid Services; and
- c) IT be recommended to Council that the Constitution be amended accordingly.

ASC6 **Proposed Changes to the Constitution**

The Director - Democracy, Planning and Public Protection presented a report which asked the Committee to consider the proposed changes to the Constitution and recommend to Council that the Constitution be amended accordingly.

Speaker: Mrs M. Kondakor

**RESOLVED that**

- a) The requirement for the appointment of two co-opted members be reduced to one on the Audit and Standards Committee as shown in Appendix A of the report, and for the Overview and Scrutiny Panels;
- b) The Proposed Changes to Article 4A.9 Public Participation, by removing Article 4.9.4 and the consequential amendments as shown in Appendix B of the report be approved;
- c) The Proposed Changes to Article 4A.10 Questions by Councillors, by inserting 4.10.6 as shown in Appendix B of the report be approved; and
- d) It be recommended to Council that the Constitution be amended accordingly.

ASC7 **Appointment of Independent Persons**

The Director – Democracy, Planning and Public Protection presented a report to confirm the arrangements for the appointment of Independent Persons as required by Section 28 of the Localism Act 2021 for a four year term of office.

Speaker: Mrs M. Kondakor.

**RESOLVED that**

- a) the arrangement of Independent Persons for a four year term of office be approved ;and
- b) It be recommended to Council that Garth Murphy, Maureen O'Sullivan and Mumtaz Goolam be reappointed as Independent Persons for a second term of four years, until July 2025.

ASC8 **Arrangement for the Queen's Platinum Jubilee**

The Director – Democracy, Planning and Public Protection presented a report for the Committee to confirm the arrangements for establishing a Member Working Party to plan for the Platinum Jubilee in 2022.

Speakers: Councillor K. Evans and Councillor K. Wilson.

**RESOLVED** that it be recommended to Council that:

- a) a cross party working group of five members be established to plan for events for the Platinum Jubilee; and
- b) the Working Group comprise of the Leader, Deputy Mayor, Leader of the main opposition group; Portfolio holder for Finance and Corporate and one additional Councillor selected by Council.

ASC9 **Carers Allowance**

The Director – Democracy, Planning and Public Protection presented a report to seek approval to recommend changes to the Members' Allowances Scheme.

Speaker: Mrs M.. Kondakor

**RESOLVED** that the Independent Remuneration Panel be requested to consider changes to the Members' Allowances Scheme as set out in the report.

ASC10 **Any Other Items**

At the request of the Chair the report Information Commissioners Officer was considered as an urgent item.

The report was presented by the Head of Audit and Governance and outlined the work of the Information Commissioner and the obligations of the Council from a legal perspective and during an investigation.

Speakers: Councillor C. Golby and Councillor K. Wilson

**RESOLVED** that the content of the report be noted.

Additionally Councillor Walmsley thanked Councillor Beetham for his technical help in live streaming meetings and his work alongside the Council's technical team.



Chair \_\_\_\_\_

**Audit & Standards Committee**  
**Schedule of Declarations of Interests – 2021/22**

	<b>Name of Councillor</b>	<b>Disclosable Pecuniary Interest</b>	<b>Other Personal Interest</b>	<b>Dispensation</b>
	General dispensations granted to all members under s.33 of the Localism Act 2011			Granted to all members of the Council in the areas of: <ul style="list-style-type: none"> <li>- Housing matters</li> <li>- Statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992</li> <li>- An allowance, payment given to members</li> <li>- An indemnity given to members</li> <li>- Any ceremonial honour given to members</li> <li>- Setting council tax or a precept under the Local Government Finance Act 1992</li> <li>- Planning and Licensing matters</li> <li>- Allotments</li> <li>- Local Enterprise Partnership</li> </ul>
	B. Beetham	Coventry Warwickshire Partnership Trust; Warwickshire County Council - Camp Hill		
	T. Cooper	None	None	
	L. Downs	River Bars Ltd. Coventry Plus Beyond the Plane		
	L. Hocking	Employed by Openreach	Member of: <ul style="list-style-type: none"> <li>• Unite the Union</li> <li>• Communication Workers Union</li> </ul> Representative on the following Outside Bodies: Committee of Management of Hartshill and Nuneaton Recreation Ground	
	J. Kennaugh	Employed by UK Flooring Direct Ltd.	Member of the W.C.C. Regulatory Committee Member of the Conservative Party Member of UNITE the Union Nuneaton and Bedworth representative for the Equality and Inclusion	

	<b>Name of Councillor</b>	<b>Disclosable Pecuniary Interest</b>	<b>Other Personal Interest</b>	<b>Dispensation</b>
			Partnership.	
	K. Kondakor		100PERCENTRENEWABLE UK LTD	
	S. Markham	County Councillor – W.C.C.	Bedworth Neighbourhood Watch	
	M. Rudkin (Vice-Chair)	Employee of Coventry City Council	UNITE the Union	
	J. Singh			
	R. Tromans	W.C.C. County Councillor (Weddington) Director of RTC Ltd, Nuneaton Risk and Compliance , AFL, Wellingborough	Member of Conservative Party Chartered Institute of Credit Management	
	H. Walmsley (Chair)	Chief of Staff to Julian Knight MP	Chartered Institute of Public Relations	Dispensation to speak and vote.

## Audit and Standards Committee - Schedule of Declarations of Interests – 2021/2022

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	B. Beetham	Employed by The George Elliott Hospital; Warwickshire County Council – Camp Hill	Member of the following Outside Bodies: <ul style="list-style-type: none"> <li>• Camp Hill Urban Village: Pride in Camp Hill Board</li> <li>• Committee of Management of Hartshill and Nuneaton Recreation Ground</li> </ul>	
	T. Cooper	None	Member on the following Outside Bodies: <ul style="list-style-type: none"> <li>• Camp Hill Urban Village: Pride in Camp Hill Board</li> <li>• Committee of Management of Hartshill and Nuneaton Recreation Ground</li> </ul>	
	L. Downs	River Bars Limited; Coventry Plus Beyond the Plane	NBBC representative on the Armed Forces Covenant Meeting	
	L. Hocking	Employed by Openreach	Member of: <ul style="list-style-type: none"> <li>• Unite the Union</li> <li>• Communication Workers Union</li> </ul>	
	J. Kennaugh	County Councillor W.C.C.	Member of the W.C.C. Regulatory Committee Member of the Conservative	

	Name of Councillor	Disclosable Pecuniary Interest	Other Personal Interest	Dispensation
		Employed by UK Flooring Direct Ltd.	Party Member of UNITE the Union Nuneaton and Bedworth representative for the Equality and Inclusion Partnership NBBC Representative on Warwickshire Race Equality Partnership	
	K.A. Kondakor	Electronic Design Engineer (self-employed, semi-retired) Statistical data analyst and expert witness (self-employed)	100PERCENTRENEWABLEUK LTD	
	S. Markham	County Councillor – W.C.C.	Member of the following Outside Bodies: <ul style="list-style-type: none"> <li>• Bedworth Neighbourhood Watch</li> </ul>	
	M. Rudkin	Employee of Coventry City Council	Unite the Union	
	J. Singh			
	R. Tromans	Director of RTC Ltd	Member of the following Outside Bodies: <ul style="list-style-type: none"> <li>• Nuneaton Neighbourhood Watch Committee</li> <li>• Nuneaton Festival of Arts</li> </ul>	
	H. Walmsley	Chief of Staff to Julian Knight MP	Chartered Institute of Public Relations	Dispensation to speak and vote
Member on the following Outside Bodies: <ul style="list-style-type: none"> <li>• Friendship Project for Children</li> <li>• West Midlands Combined Authority Audit Group</li> </ul>				

## AGENDA ITEM NO.

### NUNEATON AND BEDWORTH BOROUGH COUNCIL

**Report to :** Audit & Standards Committee – 20<sup>th</sup> July 2021

**From :** Head of Financial Services

**Subject :** Treasury Management Monitoring Q4 2020/21

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

1.1 To inform Members of the Committee of the treasury management activities of this authority in accordance with the CIPFA Code of Treasury Management.

#### **2 Recommendations**

2.1 That the Committee note the report.

#### **3 Economic Summary**

3.1 The key points for the final quarter of the financial year are:

- Bank rate was maintained at 0.10%
- The key quarterly Monetary Policy Report meeting of the Bank of England on 4<sup>th</sup> February 2021 revised its economic forecasts to take account of the third national lockdown which would cause further delay to economic recovery and do further damage to the economy. The Bank's main assumptions:
  - The economy would start to recover strongly from Q3 2021 (although risks of virus mutation would introduce a downside risk).
  - £125bn of savings made by consumers during the pandemic will give a boost to the pace of recovery once restrictions are eased.
  - CPI inflation was forecast to rise quite sharply towards the 2% target in the first half of 2021.
  - The Monetary Policy Committee reiterated its previous guidance that Bank Rate would not rise until inflation was sustainably above 2%.
  - The Bank of England removed the prospect of negative interest rates as a possibility for at least six months as financial institutions were not ready to implement them.

## 4 Economic Outlook

- 4.1 The Council's treasury advisor, Link Group, has provided the following forecast as at 10<sup>th</sup> May 2021 with comparison to their last forecast as at 8<sup>th</sup> March 2021

Link Group Interest Rate View 10.5.21												
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

Link Group Interest Rate 8.3.21												
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

- 4.2 The coronavirus outbreak has caused huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could have happened prior to more recent months when strong recovery started kicking in. However, the minutes of the Monetary Policy Committee in February 2021 made it clear that commercial banks could not implement negative rates within six months; by that time the economy would be expected to be recovering strongly and so there would be no requirement for negative rates.
- 4.3 As shown in the forecast table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been penciled in for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing Bank Rate so it is quite possible that we will not see any increase in Bank Rate in the three-year forecast period shown.

#### 4.4 Significant risks to the forecast:

- Covid vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be development
- The lockdowns case major long term scarring of the economy
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding quantitative easing.
- The MPC tightens monetary policy too late to ward off building inflation pressures.

### 5 Treasury Management Portfolio & Activity

#### 5.1 Investments – The Council's investment priorities are as follows:

- 1<sup>st</sup> – Security of capital
- 2<sup>nd</sup> – Liquidity
- 3<sup>rd</sup> – Return

#### 5.2 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity.

#### 5.3 The Council's investments mostly consist of unspent reserves and balances, 3<sup>rd</sup> party contributions and unspent capital receipts. The management of the investment portfolio considers the forecast cash flows of the Council to ascertain how much cash will be needed to cover our outgoings and when required.



5.4 Summary portfolio as at 31<sup>st</sup> March 2021:

	as at 31-Mar-20		31-Mar-21	
	Principal Amount	Average Rate	Principal Amount	Average Rate
	£000		£000	
<b>Investments</b>				
<b>Fixed Rate:</b>				
Fixed Term Deposit (365 days or less)	7,000	1.05%	6,000	0.13%
Certificates of Deposit (365 days or less)	9,000	1.00%	3,000	0.26%
<b>Total Fixed Rate</b>	<b>16,000</b>	<b>1.02%</b>	<b>9,000</b>	<b>0.17%</b>
<b>Variable Rate Deposits</b>				
Property Fund	2,000	4.58%	2,000	4.42%
Notice Account	8,000	0.95%	8,000	0.58%
MMFs/ Bank	4,318	0.49%	8,238	0.02%
Money Market Funds				
<b>Total Variable Rate</b>	<b>14,318</b>	<b>1.32%</b>	<b>18,238</b>	<b>0.75%</b>
<b>Total Managed Investments</b>	<b>30,318</b>	<b>1.16%</b>	<b>27,238</b>	<b>0.56%</b>
<i>Bank Rate</i>		0.10%		0.10%
<i>3 month LIBID (benchmark)</i>		0.47%		-0.04%
<i>6 month LIBID (benchmark)</i>		0.60%		-0.01%
<b>Borrowing</b>				
<b>General Fund:</b>				
PWLB	7,750	4.67%	6,750	4.61%
Market	2,000	4.10%	2,000	4.10%
<b>Total General Fund</b>	<b>9,750</b>	<b>4.55%</b>	<b>8,750</b>	<b>4.49%</b>
<b>Housing Revenue Account:</b>				
PWLB	67,455	2.97%	63,955	2.99%
<b>Total Housing Revenue Account</b>	<b>67,455</b>	<b>2.97%</b>	<b>63,955</b>	<b>2.99%</b>
<b>Total Borrowing</b>	<b>77,205</b>	<b>3.17%</b>	<b>72,705</b>	<b>3.17%</b>
<b>Net Debt</b>	<b>46,887</b>		<b>45,467</b>	

5.5 The full detail of the Council's investment portfolio as at 31<sup>st</sup> March 2021 is shown below:

<u>Counterparty</u>	<u>Amount Invested</u>	<u>Original Term &amp; Deposit Type</u>	<u>Maturity Date (if applicable)</u>	<u>Interest Rate</u>
Lloyds Current Account	£ 3,237,625	Instant Access	n/a	0.00%
CCLA MMF	£ 5,000,000	Instant Access (MMF)	n/a	0.04%
Santander UK	£ 8,000,000	180 Day Notice Account	n/a	0.58%
Coventry Building Society	£ 2,000,000	3 Month Fixed Term Deposit	06-Apr-21	0.03%
Lloyds Bank Plc (RFB)	£ 2,000,000	1 Year Fixed Term Deposit	03 Jun 21	0.30%
Coventry Building Society	£ 2,000,000	6 Month Fixed Term Deposit	03-Jun-21	0.05%
Nat West Bank Plc (RFB)	£ 1,000,000	1 Year Certificate of Deposit	11-Jun-21	0.53%
Nat West Bank Plc (RFB)	£ 2,000,000	1 Year Certificate of Deposit	24-Nov-21	0.13%
CCLA Property Fund	£ 2,000,000	Property Fund Investment	n/a	4.42%
	<b>£ 27,237,625</b>			0.56%

\* RFB = Ring Fenced Bank : The largest UK banks are required by UK law to separate core retail banking services from their investment and international banking activities. This is known as ring fencing and is aimed to protect retail banking from shocks originating elsewhere in the group and global financial markets.

5.6 **Appendix A** to this report presents the maturity profile of the investment portfolio (**Chart 1**) and quarterly comparisons for maturity profiles and investments by institution type.

5.7 **Chart 2** of **Appendix A** shows that the liquid cash held at the end of the final quarter dropped to 30% of total portfolio compared to almost 50% the previous quarter. This was as expected as cash was used to service day to day spend as there was little to nil income from Council Tax and NDR direct debits in the final quarter. This is highlighted by the drop in investment balances of £15m from £42m at Q3 to £27m at year end. There continued to be little appetite for short dated funds from banks and building societies and where there were bids the rates on offer were comparable to those provided by MMFs and therefore retaining cash as liquid in a AAA rated fund was considered the preferable option.

5.8 **Chart 3** of **Appendix A** shows that 18% of the portfolio is placed in AAA rated MMFs and our exposure to the UK banking sector has returned to levels seen earlier in the year. This is mainly due to investment balances dropping to their lowest level in the year and the value of strategic longer dated bank deposits placed to take advantage of higher returns from suitable counterparties e.g. Santander and Nat West (per table at 5.5).

- 5.9 **Borrowings** – The Council operates a two pool approach with individual loans allocated to either the General Fund or the Housing Revenue Account.
- 5.10 In early October 2019 HM Treasury issued a notice to all Section 151 officers that with immediate effect the rate of borrowing on any new PWLB debt would increase by 1% across all loan periods. There had been no consultation or warning of this notice.
- 5.11 There has been a subsequent consultation on options for future PWLB borrowing with the outcomes having recently been announced. The ‘hike’ in borrowing rates referred to above has effectively been removed so long as certain criteria are adhered to. The main criteria is that there must be no projects within the capital programme that are to purchase assets purely for yield irrespective of how they are financed. Purchase of residential properties and regeneration schemes do not fall within this category.
- 5.12 Debt rescheduling opportunities have been limited in the current economic climate and structure of interest rates. No debt rescheduling has been undertaken during 2020/21.
- 5.13 Other options to reschedule debt are available (e.g. to take debt at short or longer periods). However to take advantage of savings, the periods of new debt taken would have to be significantly shorter than current periods which would expose the council to a high refinancing risk.
- 5.14 Therefore, it is not deemed affordable or prudent at the current time to reschedule any existing debt.
- 5.15 The maturity profile for our debt portfolio is shown in **Appendix B** to this report.
- 5.16 One of the prudential indicators is to monitor and set limits on our maturity profile of debt to ensure that the Council is not exposed to a refinancing risk over a short period of time. The actual maturity profile and limits can be seen in section 6.1.
- 5.17 The level of slippage in the capital programme that was due to be financed by borrowing has resulted in a deferral of taking any new debt thereby generating savings compared to budget for both the General Fund and the HRA. Furthermore, our cash balances have allowed us to successfully service debt repayments for naturally maturing debt and increasing our under-borrowed position which can be managed in the short term to generate further savings by avoiding a cost of carry.
- 5.18 The majority of the debt holdings relate to the Housing Revenue Account and were taken as part of the HRA self financing in 2012. The debt strategy is reviewed annually alongside the 30 year HRA Financial Business Plan to ensure that the HRA remains viable.

5.19 Average Balances & Returns:

	2019/20 Full Year		2020/21 Full Year	
	Weighted Average Principal £000	Average Rate	Weighted Average Principal £000	Average Rate
<b>Investments</b>				
<b>Fixed Rate Deposits:</b>				
Fixed Rate more than 1 year	240	2.40%	0	0.00%
Fixed Rate 364 days or less	13,153	1.03%	7,677	0.26%
Certificates of Deposit 364 days or less	10,227	1.03%	6,184	0.64%
<b>Total Fixed Rate</b>	<b>23,620</b>	<b>1.04%</b>	<b>13,861</b>	<b>0.43%</b>
<b>Variable Rate Deposits</b>				
Property Fund	2,000	4.14%	2,000	4.01%
Bank / MMFs	7,218	0.68%	15,050	0.09%
Notice Account	8,000	0.95%	8,000	0.63%
<b>Total Variable Rate</b>	<b>17,218</b>	<b>1.21%</b>	<b>25,050</b>	<b>0.58%</b>
<b>Total Managed Investments</b>	<b>40,838</b>	<b>1.11%</b>	<b>38,911</b>	<b>0.52%</b>
<i>average Bank Rate</i>		0.72%		0.10%
<i>average 3 month LIBID (benchmark)</i>		0.63%		0.02%
<i>average 6 month LIBID (benchmark)</i>		0.70%		0.07%
<b>Borrowing (All Fixed Rate)</b>				
<b>Long Term</b>				
PWLB	76,440	3.14%	72,294	3.15%
Market	2,000	4.10%	2,000	4.10%
Interest Free Loans	2	0.00%	0	0.00%
<b>Total Borrowing</b>	<b>78,442</b>	<b>3.16%</b>	<b>74,294</b>	<b>3.18%</b>
<b>Pool Analysis of Long Term Debt:</b>				
			<b>2020/21</b>	
			<b>Weighted</b>	<b>Average</b>
			<b>Average</b>	<b>Rate</b>
			<b>Principal</b>	
			<b>£000</b>	
<b>General Fund</b>				
PWLB			7,355	4.65%
Market			2,000	4.10%
Interest Free Loans			0	0.00%
<b>Total General Fund</b>			<b>9,355</b>	<b>4.53%</b>
<b>Housing Revenue Account</b>				
PWLB			64,939	2.98%
Market			0	0.00%
Interest Free Loans			0	0.00%
<b>Total Housing Revenue Account</b>			<b>64,939</b>	<b>2.98%</b>

5.20 **Property Fund** - Funds placed into this pooled investment vehicle are combined with other contributor's deposits and the CCLA fund managers then utilise these resources to purchase and maintain a pool of properties for let. The properties within the portfolio include warehouses, offices, industrial and some retail. Income from these lettings (less a small management fee) generates a yield to the investors and is distributed via a dividend on a quarterly basis.

5.21 Deposits placed are subject to an entry free to include management charges and statutory costs due to these being property investments (e.g. stamp duty land tax).

Each month end, the value of the assets are revalued with the potential for capital growth (or a loss) in the value of the funds placed.

5.22 £2m is now held within the property fund and is in line with the strategy and approved limits.

5.23 The table below shows the return and movements in the property fund deposit by financial period and returns since inception:

<u>Period</u>	<u>Deposit</u> £000	<u>Entry</u> <u>Charges</u> £000	<u>Capital</u> <u>Growth/</u> <u>(Loss)</u> £000	<u>Closing</u> <u>Value</u> £000	<u>Quarterly</u> <u>Yield (against</u> <u>deposit)</u>	<u>Financial</u> <u>Year</u> <u>Average</u> <u>Return</u>	<u>Return</u> <u>(since</u> <u>inception)</u>
2015/16	1,000	(54)	10	956	4.26% - 4.81%	4.59%	4.17%
2016/17	0	0	(15)	941	4.17% - 4.52%	4.30%	
2017/18	0	0	45	986	4.25% - 4.88%	4.47%	
2018/19	1,000	(63)	26	1,949	3.99% - 4.27%	4.15%	
2019/20	0	0	(70)	1,879	4.01% - 4.35%	4.14%	
2020/21 - Q1	0	0	(75)	1,804	3.57%	4.01%	
2020/21 - Q2	0	0	(3)	1,801	3.91%		
2020/21 - Q3	0	0	26	1,827	4.72%		
2020/21 - Q4	0	0	39	1,866	3.84%		

5.24 As can be seen from the table above the capital value of the investment has dropped during 2019/20 and the first two quarters 2020/21. This was due to uncertainties from Brexit and more recently from Covid-19 and the impact this has had on economic activity and uncertainty on property pricing. There has been a subsequent rebound of capital values in the final two quarters of 2020/21 as the economy improves.

5.25 This deposit is a long term strategic investment and there is no intention to sell the shares purchased in the property fund in the short term.

5.26 From 2018/19 financial year, there was a change to the accounting treatment for certain investments, including Property Funds. The revised regulations require councils to charge capital gains and losses plus other charges through their Surplus or Deficit on Provision of Services within the Comprehensive Income &

Expenditure Statement (CIES). Previously, gains and losses were held on the balance sheet until the investment was withdrawn and any gains or losses crystallised.

- 5.27 MHCLG have issued a statutory override for 5 years commencing 2018/19 which allows councils to reverse any gain or loss through the Movement in Reserves Statement, thereby negating any impact on balances. Once this 5 year period ends, any gains or losses will impact revenue balances, unless there is either an extension to the transitional arrangements or the override is made permanent.
- 5.28 Although this is a substantial change to the accounting treatment of these types of investments, this does not change the view of officers with regards to utilising these types of funds to ensure that there is sufficient spread across investment types and institutions to manage risk.
- 5.29 The table below shows the property fund returns for 2020/21 before and after the statutory override:

				£000	Return (based on deposit amount)
<b>Property Fund Dividends Received</b>				80	
<b>Capital Gains / (Losses)</b>				(13)	
<b>Net Return</b>				<b>67</b>	3.34%
<b>Statutory Override</b>				13	
<b>Return as reflected in the accounts of NBBC</b>				<b>80</b>	4.01%

- 5.30 The table above shows that the net loss on the capital value during the year would have impacted on the overall return of the property fund with the net return being 3.34%. However, as regulations currently allow for changes in capital value to be held outside of the revenue account the losses are reversed to leave the dividend receipts of £80k reflected in the treasury returns (a return of 4.01%).

5.31 Investment Activity to 31<sup>st</sup> March 2021:

<b>Investment Activity (all figures in £000)</b>					
<b>Opening Balance 1st April 2020</b>					<b>30,318</b>
<b>Q1-Q3 Summary</b>					
Treasury Deposits				116,400	
Treasury Maturities				(104,400)	
Net Increase/(Decrease) in Bank				405	12,405
<b>Investment Balance at end Q3</b>					<b>42,723</b>
<b>Q3 Activity</b>					
<b>Fixed Term Deposits</b>					
<b>Counterparty</b>	<b>From</b>	<b>Term</b>	<b>Rate</b>	<b>Amount</b>	
Coventry Building Society	04-Jan-21	3 mths	0.03%	2,000	
Coventry Building Society	08-Jan-21	1 mth	0.05%	1,000	
Coventry Building Society	22-Jan-21	2 weeks	0.05%	3,000	
Coventry Building Society	05-Feb-21	2 weeks	0.05%	3,000	
Coventry Building Society	08-Feb-21	2 weeks	0.05%	1,000	
Coventry Building Society	19-Feb-21	2 weeks	0.05%	3,000	
Coventry Building Society	22-Feb-21	2 weeks	0.05%	1,000	
Coventry Building Society	05-Mar-21	1 week	0.05%	3,000	
Coventry Building Society	08-Mar-21	1 week	0.05%	1,000	
				18,000	
Maturities				(22,000)	(4,000)
<b>Money Market Fund</b>					
Deposits				11,300	
Withdrawals				(24,300)	(13,000)
<b>Instant Access Account (Bank Account)</b>					
Net increase in cash					1,515
<b>Closing Deposits</b>					<b>27,238</b>

5.32 Debt Activity to 31<sup>st</sup> March 2021:

Debt Activity (all figures in £000)							
					GF	HRA	Total
<b>Opening Debt</b>					9,750	67,455	77,205
<b>Q1-Q3 Summary</b>					(1,000)	(3,500)	(4,500)
<b>Q4 Activity</b>							
nil					-	-	-
<b>Closing Debt</b>					8,750	63,955	72,705

5.33 **Capital Finance Requirement:** The Council's Capital Financing Requirement (CFR) is the amount of expenditure (historic and current) that has been financed by borrowing, but has still to be charged to revenue through the Minimum Revenue Provision (MRP).

The Council is £21m under-borrowed (CFR less actual debt) at the end of financial year. This is due to the CFR increasing due to prudential borrowing being used to finance capital spend for both the General Fund and the HRA but no physical debt taken and £4.5m of debt maturing per table 5.32. The under-borrowed level is monitored to ensure that the position is sustainable in the short term and the Council not exposed to an interest rate risk. The table below details the under-borrowed position by fund:

	General Fund	Housing Revenue Account	Total
	£000	£000	£000
Debt Holdings as at 31 Mar 21	8,750	63,955	72,705
CFR at 31 Mar 21	14,956	79,111	94,067
<b>(Under) / Over Borrowing Position</b>	<b>(6,206)</b>	<b>(15,156)</b>	<b>(21,362)</b>

It is proposed that we remain in an under-borrowed position whilst cash balances are high enough to maintain this strategy thereby avoiding a 'cost of carry'. Cost of carry can be described as cost of financing debt being higher than the return on investment and therefore incurs a net cost to the Council. However, debt rates and investment opportunities will continue to be monitored to ensure that we do not expose the Council to excessively high debt interest rates in the future.



5.34 At each year end it is possible to analyse the Council's balance sheet to identify how the investment balances are derived and the table below shows the composition of cash resources that make up the investment portfolio. Total resources available as at 31<sup>st</sup> March 2021 had increased marginally, however the decision to continue to utilise some of these available cash resources to maintain an under-borrowed position reduced this figure to the £27.24million.

	31-Mar-19	31-Mar-20	31-Mar-21
	£m	£m	£m
General Fund Balances (incl' minimum working balances)	1.66	1.35	1.45
General Fund Earmarked Reserves	8.99	10.80	18.21
HRA Balances (incl minimum working balances)	12.17	6.76	6.47
HRA Earmarked Reserves	7.01	4.53	4.06
HRA Major Repairs Reserve	0.38	4.36	1.61
Capital Receipts	4.10	3.59	4.10
Ringfenced capital grants & contributions	7.26	7.89	10.16
Working Capital (i.e. money owed to others less money owed to us)	4.38	6.65	2.54
<b>Total Resources Available for Investment</b>	<b>45.95</b>	<b>45.93</b>	<b>48.60</b>
Less amounts utilised for internal borrowing	(9.57)	(15.61)	(21.36)
<b>Actual Investments</b>	<b>36.38</b>	<b>30.32</b>	<b>27.24</b>

5.35 Although investment balances are approximately £27m, not all of these resources are available to support general day to day expenditure of the Council with the majority of these resources being ringfenced or earmarked for specific purposes (e.g. grant conditions, future capital expenditure requirements, risk cover).

5.36 As the HRA is now fully self financed a local indicator is now included to inform Members of the HRA debt against the number of dwellings. The following table provides this information updated to account for the movement in stock count during the year:

	Actual 31-Mar-20	Actual 31-Mar-21
Number Dwellings	5,703	5,708
HRA CFR	£78,315,441	£79,110,782
<b>CFR (Debt) per dwellings</b>	<b>£13,732</b>	<b>£13,860</b>
	Actual 2019/20	Actual 2020/21
Average number of dwellings held	5,710	5,706
HRA cost of debt <i>(debt cost plus cost of underborrowed position)</i>	£2,166,891	£2,016,039
<b>Cost per dwelling per annum</b>	<b>£379</b>	<b>£353</b>
<b>Cost per dwelling per week (52 weeks)</b>	<b>£7</b>	<b>£7</b>

### 5.37 Revenue Position 2020/21.

The table below shows the 2020/21 outturn for treasury management budgets:

	Outturn £000	Full Year Budget £000	Forecast Variance £000
<b>General Fund</b>			
Treasury Investment Income	(181)	(109)	(72)
Debt Interest	424	563	(139)
<b>Subtotal</b>	<b>243</b>	<b>454</b>	<b>(211)</b>
Minimum Revenue Provision	427	482	(55)
<b>Total</b>	<b>670</b>	<b>936</b>	<b>(266)</b>
<b>Housing Revenue Account</b>			
Treasury Investment Income	(23)	(47)	24
Debt Interest	1,937	2,397	(460)
<b>Total</b>	<b>1,914</b>	<b>2,350</b>	<b>(436)</b>

5.38 The GF investment interest budget includes a virement to reduce the budget by £90k which was approved by Cabinet and Council as part of the first quarter report including the impact of Covid19. However, returns on the property fund and also the notice account have exceeded expectations and therefore the original losses predicted compared to budget have not fully materialised. A review of the GF debt portfolio and cash flows have also allowed for deferral of new debt being taken to bring further savings into the General Fund. However, the longer this deferral

lasts, the higher the interest on new debt will be and therefore monitoring of interest rates is key to ensure that the longer term debt costs are not adversely affected.

## 6 Prudential/ Treasury Indicators

6.1 A summary of the prudential & treasury indicators are detailed in the following table:

	2020/21 Indicator (updated February 2021)	2020/21 Outturn	
Estimated Closing Capital Financing Requirement (CFR)	GF £13.99m GF Commercial £1.97m HRA £80.23m Total £96.19m	GF £12.99m GF Commercial £1.97m HRA £79.11m Total £94.07m	😊
Estimated Capital Expenditure	GF £15.56m GF Commercial £0.00m HRA £17.22m Total £32.78m	GF £10.53m GF Commercial £0.00m HRA £15.13m Total £25.66m	😊
Authorised Limit for External Borrowing	£110.19m	Maximum to end March £77.21m	😊
Operational Boundary for External Borrowing	£96.19m		😊
Principal sums invested > 365 days (at inception)	£10.00m	Maximum to end March £2.00m	😊

	2020/21 Approved Indicator	2020/21 on existing portfolio			
Maturity Structure of Borrowing ( <i>maximum principal due to mature in period</i> ):		<i>as at end March 2021</i>			
		GF	HRA	NBBC	
Under 12 months	20%	-	-	-	😊
12 months – 2 years	20%	-	13%	12%	😊
2 – 5 years	50%	23%	43%	40%	😊
5 – 10 years	75%	20%	39%	37%	😊
10 – 20 years	100%	11%	5%	5%	😊
20 – 30 years	100%	-	-	-	😊
30 – 40 years	100%	23%	-	3%	😊
Over 40 years	100%	23%	-	3%	😊

6.2 **Investment Counterparty Limits** – The investment policy as approved at Council in February, contains limits for financial deposits per institution. No limits were breached in the financial year and all treasury maturities were repaid in line with contractual arrangements.

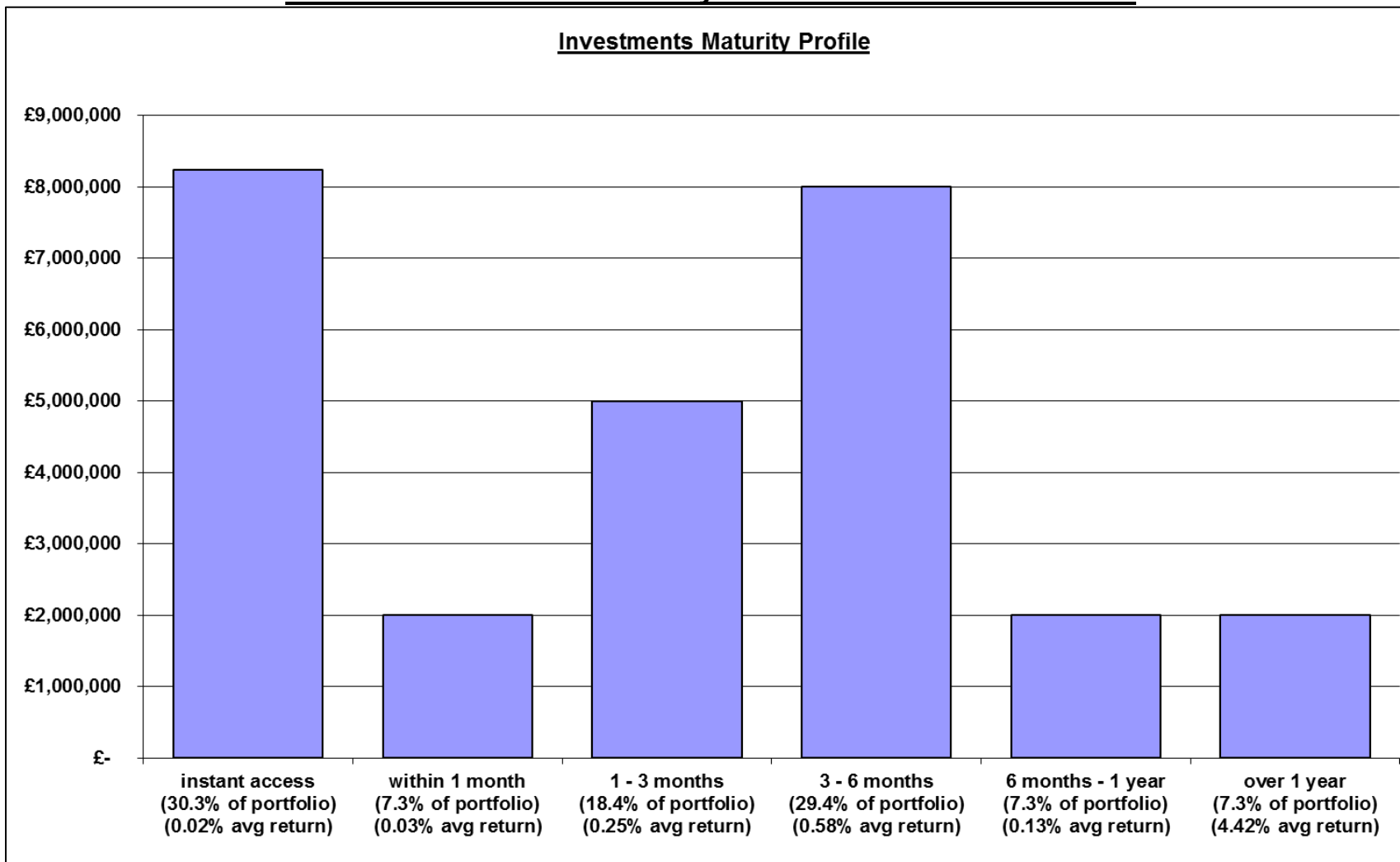
## 7 Conclusion

7.1 Security of the principal amount deposited will continue to remain the primary objective when placing deposits, however, we will continue to investigate the markets to identify any opportunities that may provide us with improved returns whilst remaining within the confines of our approved treasury strategy and counterparty selection criteria.

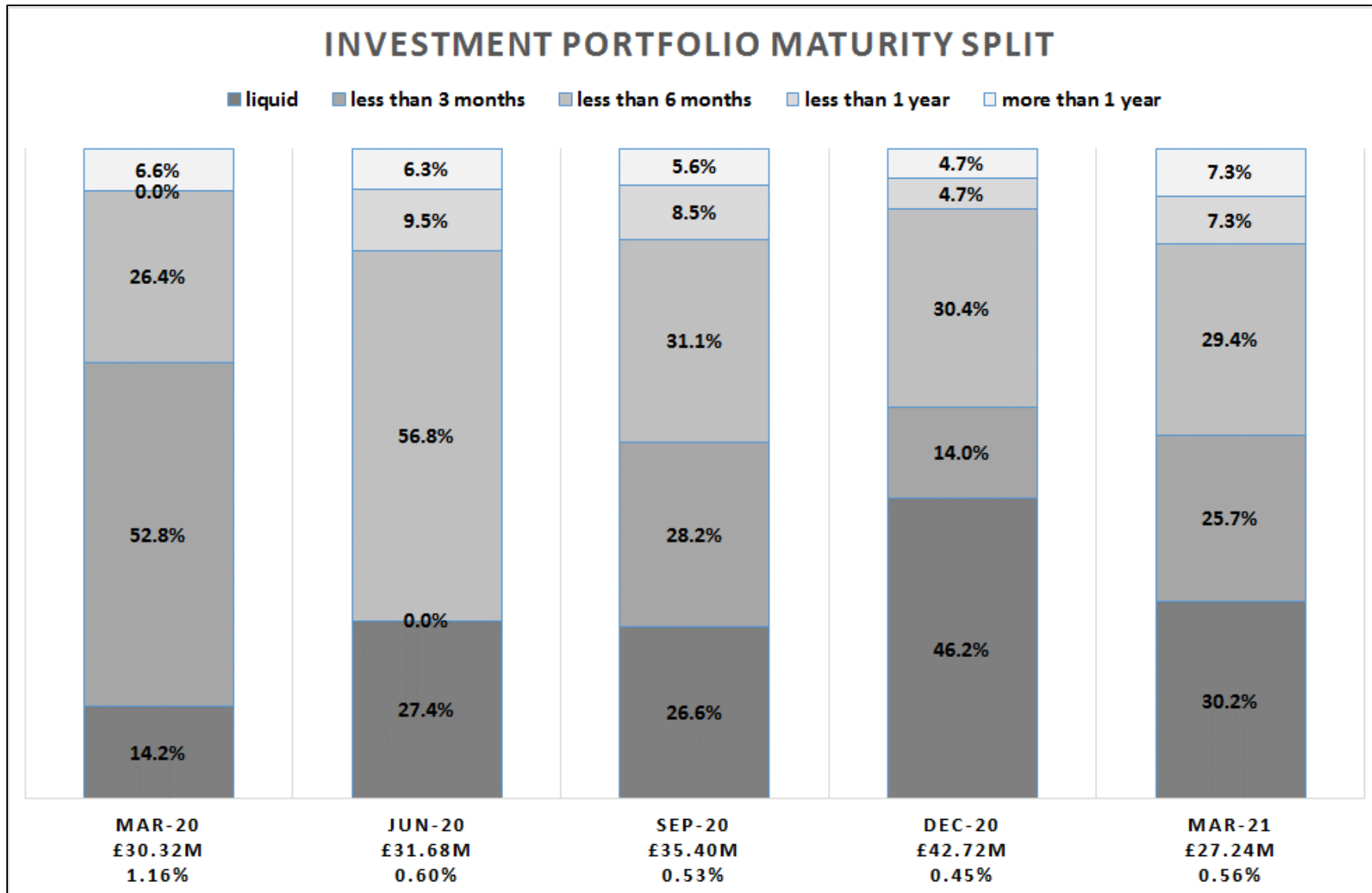
7.2 Furthermore, the Treasury Management team, with the assistance of Link Group, will continue to monitor investment counterparty creditworthiness and manage the debt and investment portfolio to allow us to react to changes in interest rates, rate forecasts and the capital and investment markets.

**CRAIG PUGH**

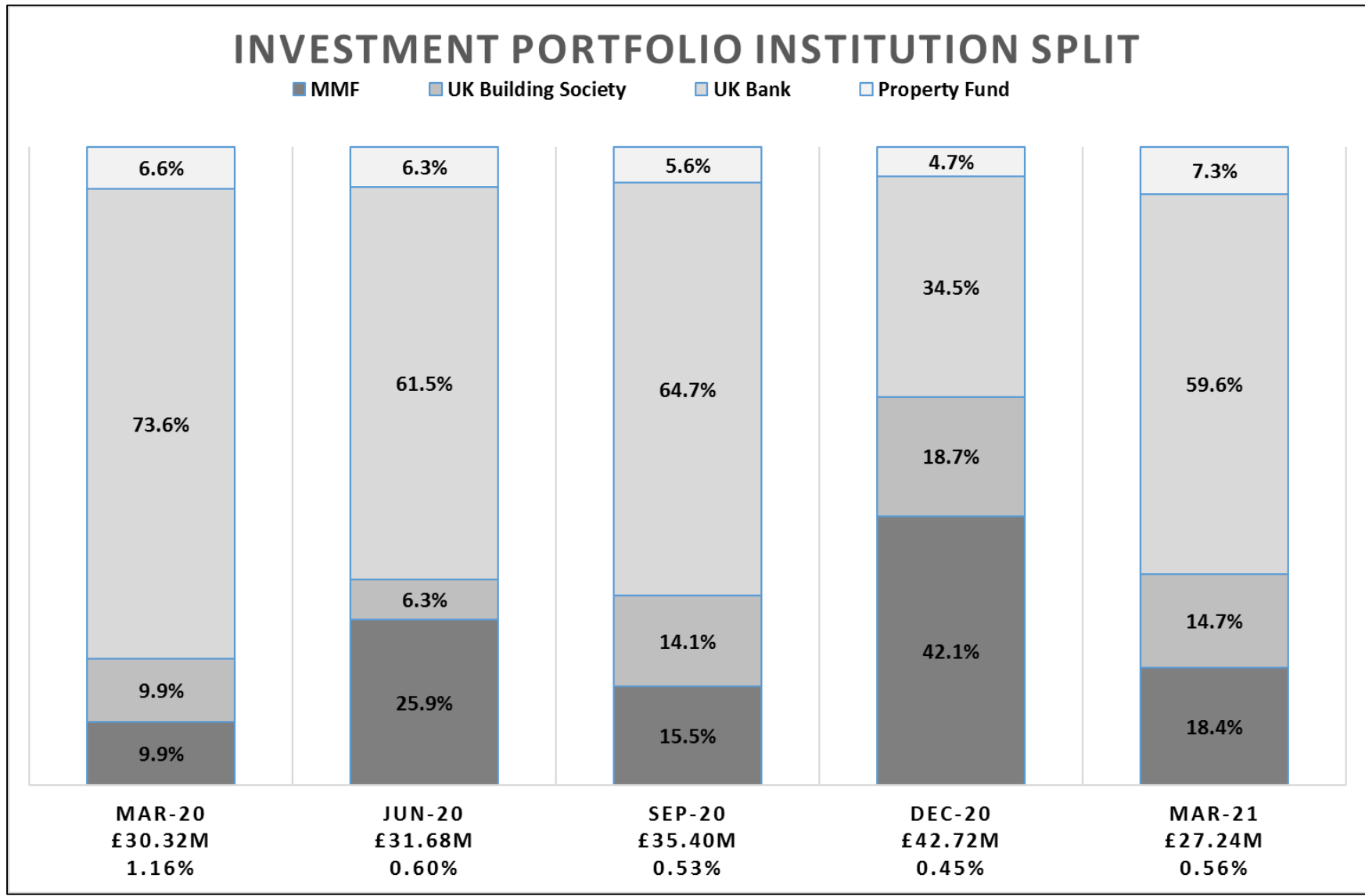
**Chart 1 – Investment Maturity Profile as at 31<sup>st</sup> March 2021**

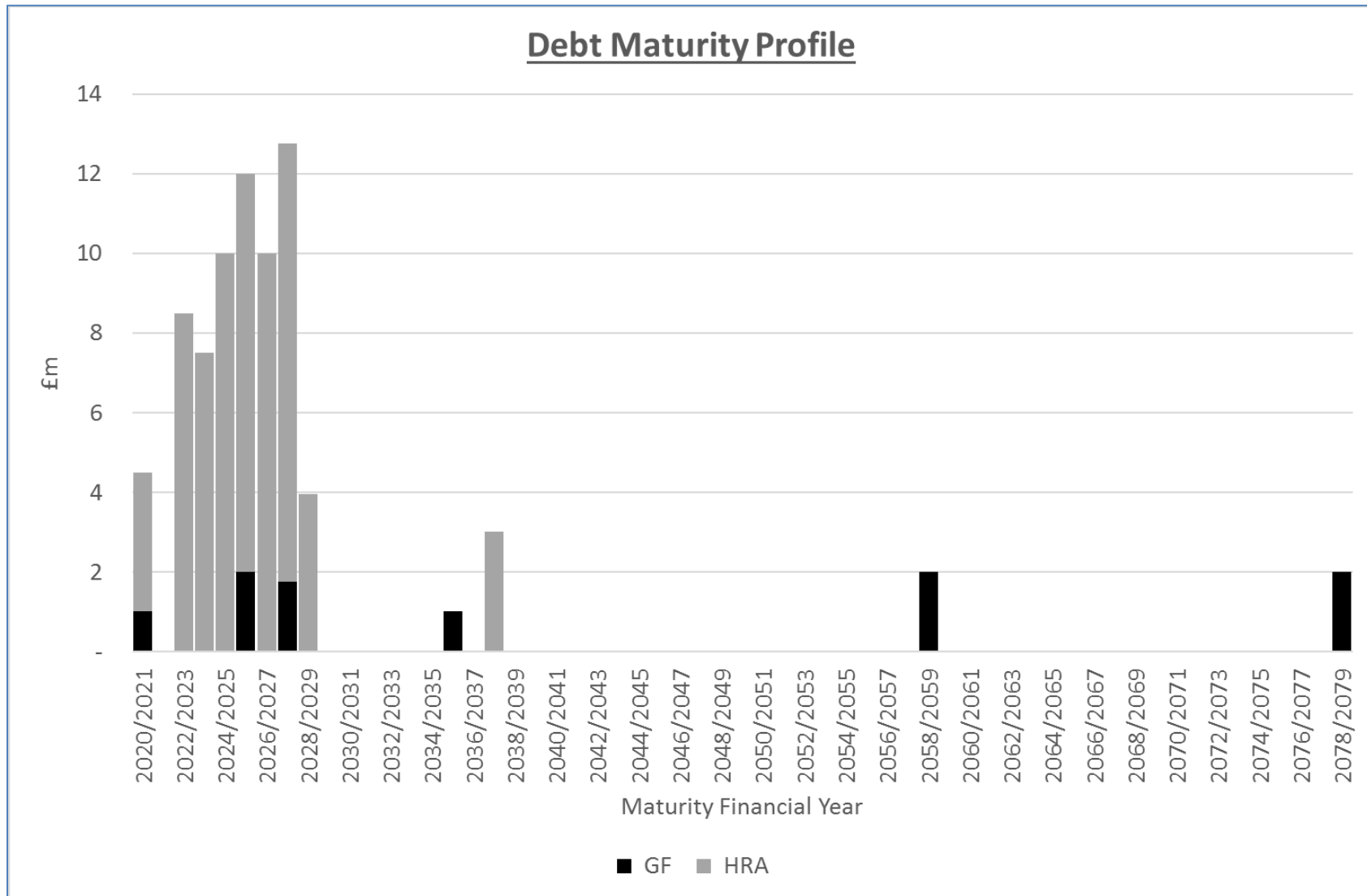


**Chart 2 – Quarterly Analysis of Portfolio Maturity Profile**



**Chart 3 – Quarterly Analysis of Deposits by Institution Type**







## Appendix C

### Glossary of Treasury Management Terminology

<u>Term</u>	<u>Description</u>
Authorised Limit for External Debt	Legal maximum external borrowing that this council is allowed to incur. This amount of debt, whilst unaffordable in the long term, is set to allow for events that deem the need for short term borrowing to maintain the day to day financing of Council activities.
Capital Financing Requirement (CFR)	The amount of capital expenditure (historic and current) that has been financed by borrowing and has yet to be charged to revenue through the Minimum Revenue Provision (MRP)
Certificate of Deposit	A fixed rate deposit instrument for a defined period that can be traded on a secondary market before maturity.
Counterparty	External institution for placing investments.
Fixed Term Deposit	Investment placed with an institution for a specified time period. No withdrawals are allowed before the specified contract end date.
Liquid Cash	Amounts of cash invested that can be withdrawn with no notice period.
London Inter-bank Bid Rates (LIBID Rates)	The rates of interest payable in transactions between participating banks in the London markets.
Long Term Debt/ Investments	Transaction is for periods of greater than 365 days
Minimum Revenue Provision (MRP)	An amount charged to revenue (Council Tax/ Rents) and set aside for the future repayment of the principle amount of debt.
Money Market Fund (MMF)	An investment product of high creditworthiness where deposits placed are pooled with other depositors to allow the MMF to diversify their investments across a large number of institutions.
Operational Boundary for External Debt	The expected level of external borrowings for the financial year.

<b><u>Term</u></b>	<b><u>Description</u></b>
Public Works Loans Board (PWLB)	A branch of the Government Debt Management Office which issues debt to local authorities.
Short Term Debt/ Investments	Transaction is for a term of 365 days or less
Weighted Average Rate of Return	The effective combined interest rate of the portfolio/ investment instruments.

**NUNEATON AND BEDWORTH BOROUGH COUNCIL**

**Report to: Audit and Standards Committee – 20<sup>th</sup> July 2020**

**From: Head of Audit and Governance**

**Subject: Internal Audit Annual Report 2020-21**

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**1. Purpose of the Report**

- 1.1 The purpose of this report is to present the Head of Audit and Governance Annual report, which includes:
- A statement on conformance with the Public Sector Internal Audit Standards (PSIAS);
  - The results of the quality assurance and improvement programme;
  - The Head of Audit and Governance opinion on the overall adequacy and effectiveness of NBBC's framework of governance, risk management and control; and
  - A summary of the work that supports that opinion.

**2. Recommendations**

- 2.1 To note the findings of an assessment of the internal audit function against the Public Sector Internal Audit Standards and quality assurance programme.
- 2.2 To consider the summary of internal audit work at Appendix A and B which supports the Head of Audit and Governance opinion.
- 2.3 That the Head of Audit and Governance overall opinion on the control environment be noted.

**3. What is the Committee being asked to consider?**

- 3.1 In relation to recommendation 2.1:-
- Is the Internal Audit section effective?
  - Does the section comply with the Public Sector Internal Audit Standards (PSIAS)?
  - Can the findings of the team be relied upon?
- 3.2 In relation to recommendation 2.2:
- Management of the Audit Plan during 2020-21;
  - Any issues or questions arising from the summary of audit findings and any specific audits where the Committee would like a follow-up report from managers;

3.3 In relation to recommendation 2.3:

- The Head of Audit and Governance overall opinion of the control environment given the work completed and the outcome of specific audit reviews.

#### **4. Background**

4.1 The Public Sector Internal Audit Standards (PSIAS) came into force on the 1<sup>st</sup> April 2013 and were amended, with effect from 1<sup>st</sup> April 2017. The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

4.2 The Standards refer to the Chief Audit Executive (CAE), which at NBBC is the Head of Audit and Governance; all references to the board refer to the Audit and Standards Committee. The Standards require the CAE to present an annual report to the board which incorporates a statement on conformance with the PSIAS, an opinion on the Council's overall control environment and a summary of the work that has been completed to support that opinion.

#### **5. Requirements of the PSIAS**

5.1 The Standards are split into Attribute Standards and Performance Standards. The Attribute Standards address the characteristics of the organisation. The Performance Standards describe the nature of the internal audit activity and provide quality criteria against which performance can be evaluated.

##### **Attribute Standards**

###### 1000 – Purpose, Authority and Responsibility

5.2 The purpose, authority and responsibility of internal audit must be formally defined in an internal audit charter. The charter is a formal document that establishes internal audit's position within the organisation, including the CAE's reporting relationship with the board; authorises access to records, personnel, and physical properties relevant to the performance of reviews and defines the scope of internal audit activities. Final approval of the charter resides with the board.

## 1100 – Independence and Objectivity

- 5.3 Independence is the freedom from conditions that threaten the ability of the internal audit function to carry out its responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit service, the CAE must have direct and unrestricted access to senior management and the board. The CAE is able to confirm that the NBBC internal audit service is organisationally independent.
- 5.4 Individual objectivity is achieved when internal auditors have an impartial, unbiased attitude and avoid any conflict of interest.
- 5.5 The Standards suggest that the board should have responsibility for the appointment and removal of the CAE and for approving the CAE's remuneration. However, it is recognised that in the UK public sector it would be unusual for the board to have such a role, although it may be the case if the internal audit function is supplied by contractors or a partnership.

## 1200 – Proficiency and Due Professional Care

- 5.6 Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit team collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. The CAE must hold a professional qualification and be suitably experienced. In addition, all internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional qualifications.

## 1300 – Quality Assurance and Improvement Programme

- 5.7 The CAE must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. A QAIP is designed to enable an evaluation of internal audits conformance with the Standards and an evaluation of whether the auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of internal audit and identifies opportunities for improvement. The QAIP must include both internal and external assessments.

### **Performance Standards**

- 5.8 The Performance Standards describe the nature of the internal audit services being provided and provide criteria against which the performance of an internal audit function can be measured.
- 5.9 The elements included within this section are:
- *2000 - Managing the internal audit activity* – the CAE must effectively manage the internal audit activity to ensure that it adds value to the organisation. The activity adds value when it considers strategies, objectives and risks; strives to offer ways to enhance governance, risk

management and control processes; and objectively provides relevant assurance.

- *2100 - Nature of the Work* – the internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic, disciplined and risk based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.
- *2200 - Engagement Planning* – internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organisation's strategies, objectives and risks relevant to the engagement.
- *2300 - Performing the Engagement* – internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.
- *2400 - Communicating results* – communications must include the engagement's objectives, scope, results, an appropriate conclusion, recommendations and an action plan. Where appropriate, the internal auditors' opinion should be provided, which must take account of the expectations of senior management and must be supported by sufficient, reliable, relevant and useful information.
- *2500 - Monitoring progress* – The CAE must implement a follow up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
- *2600 – Communicating the acceptance of risks* - If the CAE concludes that management has accepted a level of risk that may be unacceptable to the organisation, the CAE must discuss the matter with senior management. If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the board.

## **6. Conformance with the PSIAS**

- 6.1 The PSIAS require an external assessment of the internal audit service at least once every 5 years; the last external assessment at NBBC was in 2019. This included an evaluation of core information as evidence; such as procedural notes and the audit manual, the internal audit charter, audit plans and Committee reports, example audit files and reports, and the latest annual report.
- 6.2 The review assessed the internal audit function against three recognisable standards:
- (i) Resources – Business vision and mission, governance arrangements, recognition of standards, guidance, procedures and supervision, terms of engagement, ethics and business conduct;
  - (ii) Competency – Charter, internal audit manual, planning and allocation of staffing, recruitment (numbers and skills), training (professional and technical), appraisal and development; and

(iii) Delivery – Client engagement and relationships, directed led service, terms of engagement (audit/assignment brief), discussion of assurance and advisory opinions, reporting at assignment and strategic levels.

6.3 The overall conclusion of the review was that internal audit complies with the PSIAS and continues to provide an effective and efficient service to Nuneaton and Bedworth Borough Council. There were some actions identified by the external assessor which would enhance service provision, which do not affect the overall level of compliance with the PSIAS but do ensure internal audit continues to develop and demonstrate best practice and these have now been addressed.

## **7. Quality Assurance Improvement Programme**

7.1 The internal audit quality assurance programme includes reviews of the files by the Head of Audit and Governance before draft reports are issued and approval of the audit brief and audit programme before any work is completed. Performance is also monitored in quantitative and qualitative terms using the following factors:

- Proportion of planned audits completed in the year;
- Extent to which management adopt Internal Audit recommendations; and
- Feedback from managers on the value and performance of the audit.

7.2 At the year-end there were six reviews carried forward to 2021-22 so the team completed approximately 70% of the Plan. This is a good achievement given the difficulties caused by the Covid-19 restrictions, many services were affected directly and had high priority Covid related priorities to deal with and the majority of staff were working from home. This therefore made it more difficult and time consuming to obtain information to complete audit reviews.

7.3 Client questionnaires are issued to all managers with the final report, to establish the effectiveness of the review. The majority of managers who responded felt that a good or very good performance had been achieved in respect of planning the audit, the quality of the report and recommendations made, the timing of the review, the standard of communication and the professionalism of the auditors. Managers also confirmed that the implementation of the recommendations made would lead to improvements in performance.

## **8. Opinion on the adequacy of the Council's control environment and a Summary of the work supporting that opinion**

8.2 Sixteen operational audit reviews were completed during the year and seventeen opinions given (two opinions were given for different elements of the fire risk management process); and of the seventeen opinions, fourteen (82%) were considered to be satisfactory or better. Also, ten follow-up reviews were completed, and sixty of the sixty-two recommendations checked had either been fully implemented or were in progress, which

equates to approximately 97%, and the assurance level for all of the reviews remained as or was revised to satisfactory or significant.

- 8.3 Based upon the results of the work undertaken during the year I can give satisfactory assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 8.4 A summary of the findings of the audit reviews is at Appendix A to this report, but it must be noted that this is a snapshot of the situation at the time of the audit and procedures may well have changed since then if agreed recommendations have been actioned. A summary of the follow-up reviews is at Appendix B.
- 8.5 There are 2 new tables at the end of Appendix A, which have been added following a request from members at the extraordinary Audit and Standards meeting on the 20<sup>th</sup> June for additional information around audit opinions and recommendations.
- 8.6 The first table demonstrates how the auditor concluded what the appropriate overall audit opinion should be. At the outset of every audit the risks to the system or process and the key controls used to mitigate those risks are established. On completion of the audit work an audit opinion is given on each of the key controls and this information is then used to establish what the overall opinion should be.
- 8.7 For example, five key controls were identified in the benefits system, we gave significant assurance for three of them, satisfactory for one and limited for one. The overall opinion given was therefore satisfactory.
- 8.8 The second table shows the number of recommendations made and the priority that was given them. So, with the benefits system again, six recommendations were made five priority 2 and one priority 3. It is more difficult to correlate the number and priority of recommendations to assurance levels because we often have multiple recommendations against the same key control. All six of the benefit recommendations were in relation to only two of the key controls and the overall assurance level needs to consider all findings. It is pleasing to note from this table though that none of the recommendations had a priority 1 rating.

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## Summary of Internal Audit Findings

### Reviews Brought Forward from 2019-20

#### Building Cleaning (Housing Estates)

Our audit opinion was '**Satisfactory Assurance**'. Risk and COSHH assessments were up to date, purchases of cleaning materials appeared reasonable and within budget and minimal complaints had been received. Health & Safety training for some operatives had expired during the lockdown period, however arrangements were being made for remote refresher training to be completed.

#### Car Park Income

Our audit opinion was '**Satisfactory Assurance**'. There were some areas that require further improvements particularly in the accuracy of data input on spreadsheet records as well as strengthening the audit trail for refunds and appeals as majority of case files were held as hardcopy records.

#### Debtors

Our overall audit opinion is '**Satisfactory Assurance**'. The key findings were as follows:

- approximately 500 outstanding invoices were raised between 2004 and 2014, with a total value of approximately £494,400 and 46.5% of these (218) had 100% of the balance outstanding and the recovery time limit is likely to have expired;
- the recovery path for rechargeable repairs is lengthy; the first reminder is not issued until day 31, followed by two further reminders at 14 day intervals, so by this point the debt has been outstanding for 61 days before any formal action is considered;
- there were 47 outstanding County Court Judgement (CCJ) cases with no arrangement, with a total value of £71,349;
- despite this issue being raised in previous audit reports, there is still evidence to suggest that credits notes are being posted without the correct level of authorisation. Also, there is no adequate segregation of duties between the raising of invoices and cancelling of the debt.

#### Fixed Assets

Our overall audit opinion is **Satisfactory Assurance**. The key findings were as follows:

- The Asset Management Strategy 2016-18 was out of date;
- There was no documented and defined process for the acquisition of land and property;

- The form of Delegation for the 'new' Regeneration & Housing Officer had been completed following the latest restructure but did not appear to have been submitted to Legal Services for recording;
- Approximately 49% (20 out of 41) of IT records of assets held at an employee's home were out of date, although we appreciate the speed at which the team had to obtain and distribute equipment to enable everyone to work from home at the start of the Covid pandemic.

### **Open Space**

Our overall audit opinion was “**Satisfactory**” assurance as the controls in place are generally sound. The key findings were as follows;

- there were no individual site management plans for its parks and green spaces;
- there was no comprehensive asset list to help inform the capital investment programme, though it was acknowledged that the Team is looking to develop one, using the Play Inspection Company system;
- the majority of the risk assessments did not transfer over properly from AssessNet to N-Share when the Health & Safety Team replaced their system and, at the time of testing, the assessments had not been reviewed and updated or completed. It was acknowledged though that a record of the assessments was available in spreadsheet format and was last reviewed in 2020;
- the remedial actions taken on issues arising from the playground inspections had not been recorded on the Play Inspection Company system, and items had not been closed down after they had been addressed;
- a Signage Policy, although planned and outlined in the Open Space Strategy, was never produced, and implemented.

### **2020-21 Audit Plan**

#### **Asbestos Management (Property Services)**

Our overall audit opinion is ‘**Satisfactory**’ assurance. This outcome is positive in terms of how “minor” occurrences are dealt with and confidence that there would be no catastrophic response should a “major” incident arise in the Property Services section. There were three issues highlighted:

- the toolboxes used are not appropriate for the transportation of PPE to the work site
- not all incidents are being recorded on the “Occurrence Log” in Building Surveying
- with suitable training some of the asbestos related repairs could be dealt with in-house rather than by the contractor which could potentially generate cost savings

## **Benefits**

Our audit opinion was '**Satisfactory Assurance**' for the administration of benefits, local council tax support and discretionary & hardship payments. Our review confirmed that entitlements were accurately calculated, supported by appropriate documentary evidence and decision notices promptly issued. The key areas for improvement were:

- the administration of overpayments, as although claimants were informed promptly, there were significant delays in the raising of invoices to clawback recoverable funds;
- the write-off authorisation form was not being completed in all cases for irrecoverable overpayments, so there was no evidence to show that these write-offs had been checked and approved.

## **Data Quality**

The overall audit opinion is '**Limited Assurance**'. Of the 12 indicators examined, the following four (33%) highlighted data quality issues with reference to base data:

- PULPI 21A – Monitoring of the standard of grounds maintenance work (formal areas) – satisfaction forms are issued and any not returned are classed as satisfactory performance
- ASMLPI 10A – The Number of Market Stalls Hired in Nuneaton – third quarter had been underreported by 56 stalls
- EHLPI 3 – Planning Applications Average Decision Time – for all four quarters the average time reported was longer than that calculated using the supporting data
- SLPI2 – The Number of Safeguarding Children Enquiries and Referrals – format of the spreadsheet used made it difficult to avoid double counting which could introduce errors in data published

## **Equality**

Our overall audit opinion was '**Limited Assurance**'. The key findings were as follows:

- the Equality Policy was last reviewed in 2014 and was out of date;
- there had been no equality reports to elected members for some time;
- errors were identified in the equality data published in the Public Sector Equality Duty Compliance report and no clear audit trail was available to confirm the figures relating to discrimination incidents and translation requests;
- the shortcuts to assist customers in operating the Council website were not operating effectively;
- training records had not been kept up to date, therefore there seems to a high ratio of staff that are overdue refresher training. Also, there was no record to confirm that Elected Members had received equality training;

- senior managers were not aware of the equality pre- screening process that should be undertaken as a minimum for all formal reports, decisions and policies.

### Fire Risk Management

Our audit opinion was '**Limited Assurance**' for the control arrangements for fire risk management at corporate sites, and '**Satisfactory Assurance**' housing sites.

- due to the pandemic, telephone fire risk assessments had been completed for corporate buildings but there was a limited record of what had been covered and assumptions made that the significant findings from previous assessments remained the same with no check that they had been addressed;
- the Council Depot, which remained fully operational throughout the pandemic had not had a visual fire risk assessment completed;
- fire risk assessment reports for assessments completed during 2020 for the Town Hall and Civic Hall had not been finalised;
- no procedure in place for monitoring the actions raised in fire risk assessment reports;
- copies of inspection reports issued by Warwickshire Fire Service were not filed in the central health and safety folder;
- no formal terms of reference for the Fire Risk Management Group;
- the fire evacuation process is not included in the induction training for new starters;
- register of fire drills was out of date and there was no evidence to show that the action raised during the 2017 drill had been addressed;
- an out of hours fire drill had never been conducted.

### Museum

Due to the Covid-19 lockdown measures in place only a light touch review could be completed as we were unable to visit the Museum and, our overall audit opinion was '**Satisfactory**' assurance.

Since the last internal audit review in 2015, some progress had been made in the auditing and accessioning of the objects and artefacts. The availability of wi-fi access in all storage areas meant that the collection audit updates could now be inputted directly into the documentation system, thus removing previous duplication of work, and improving the efficiency of the process. Appropriate, suitable storage space continued to be an issue, however, the creation of an additional storage room and having further racking fitted in the Town Hall basement in 2020, had relieved some of the pressure.

### Planning

Our overall audit opinion was '**Satisfactory**' assurance. The key findings were as follows:-

- the pre-application advice fees schedule published on the Planning webpage was out of date, and the charges applied for this service were under-charged by 4%, an annual under recovery of approximately £520;

- the VAT treatment on the pre-application fees income was incorrect as it had been accounted for at zero rate rather than standard rate;
- one of the ten pre-application advice fees reviewed could not be located in the accounts and two were posted to the incorrect code;
- income due is not regularly reconciled to income received/posted against the relevant code in the General Ledger, had this been completed the posting errors above would have been identified.

### **Pollution Control**

Our overall audit opinion was '**Satisfactory**' assurance. The key findings were as follows: -

- the Air Quality Action Plan had not been updated since its original publication in 2011;
- invoices had not been issued for the subsistence charges for 2019/20 and 2020/21 in three of the four new permit applications reviewed;
- the published Permitted Processes list was incomplete and out of date;
- of the 693 noise related complaints received during 2019/20 approximately 13% (89) still remained 'open' at the time of testing;
- a risk assessment to identify any vulnerable victims had not been completed for any of the ten noise complaints reviewed.

It was positive to note that although the Department for Environment, Food and Rural Affairs had recommended that the Leicester Road Gyratory Air Quality Management Area be revoked, the Council took a prudent decision to continue to monitor the area because of the substantial growth in house building to the north of Nuneaton.

### **Test and Trace Support Payments (Self-Isolation) Scheme**

Our overall audit opinion is '**Satisfactory**' assurance over the administration of the Scheme. The application and payment process appeared to be appropriate and effective, although due to having no access to the NHS Test & Trace eligibility checker and Department for Work and Pensions' Searchlight system, we had to rely on the verification checks carried out by the benefits team. Our testing identified one incorrect payment, it was a multiple claim and the second claim overlapped with the first, so it was not payable, the applicant took the second test too early. A 100% check of multiple claims did not identify any further errors.

### **Transport (Driver Licence Checks)**

Our overall audit opinion is '**Significant Assurance**'. The process for checking driver licences was shown to be effective. In addition, it was pleasing to see that the two issues of concern raised on the last audit (new starter notifications and resilience of the process) have been addressed.

**Unplanned Reviews****Pest Control Concession Expenditure**

The pest control service is outsourced to Coventry City Council and this audit was originally completed during 2018/19, when a '**Limited**' assurance opinion was given because no checks had been completed to verify the eligibility of customers claiming a concession. The annual cost to the Council of concessions is approximately £10,000. After a follow up review in 2019/20 the opinion was upgraded to '**Satisfactory**' as a web portal was being developed to enable Coventry City Council to check and verify users' eligibility in claiming a concessionary rate. However, a further follow up review completed during 2019/20 showed that the web portal had still not been introduced because some records did not contain a 12-digit unique property reference number that the search function requires. No alternative verification checks had been completed but an audit check on the number and value of the concessions claimed by Coventry City Council during 2018/19 appeared to be accurate, with only a minor discrepancy of £150, so the opinion remained as '**Satisfactory**'.

**Summary of Key Control Assurance Levels (Table 1)**

System	Key Control Assurance Levels				Overall Opinion
	Significant	Satisfactory	Limited	No Assurance	
Asbestos Management	0	2	0	0	Satisfactory
Benefits	3	1	1	0	Satisfactory
Building Cleaning (Housing Estates)	4	0	1	0	Satisfactory
Car Park Income	0	1	1	0	Satisfactory
Data Quality	Based on the error rate of 33%				Limited
Debtors	1	4	0	0	Satisfactory
Equality	2	1	6	0	Limited
Fire Risk Management	0	2	4	0	Limited Satisfactory
Fixed Assets	3	3	0	0	Satisfactory
Museum	0	3	0	0	Satisfactory
Open Space	0	3	2	0	Satisfactory
Pest Control Concession Expenditure	0	1	0	0	Satisfactory
Planning	2	5	0	0	Satisfactory
Pollution Control	5	8	0	0	Satisfactory
Test and Trace Self-Isolation Scheme	2	3	0	0	Satisfactory
Transport (Driver Licence Checks)	1	0	0	0	Significant

**Summary of Recommendations Made (Table 2)**

System	Assurance Level	Recommendation Priority				
		1	2	3	4	5
Asbestos Management	Satisfactory	-	-	3	-	-
Benefits	Satisfactory	-	5	1	-	-
Building Cleaning (Housing Estates)	Satisfactory	-	1	-	-	-
Car Park Income	Satisfactory	-	1	4	1	-
Data Quality	Limited	-	-	-	-	-
Debtors	Satisfactory	-	7	4	-	-
Equality	Limited	-	11	3	3	-
Fire Risk Management	Limited/ Satisfactory	-	6	7	-	-
Fixed Assets	Satisfactory	-	1	2	-	-
Museum	Satisfactory	-	-	-	-	-
Open Space	Satisfactory	-	5	5	-	1
Pest Control Concession Expenditure	Satisfactory	-	1	1	-	-
Planning	Satisfactory	-	5	4	1	-
Pollution Control	Satisfactory	-	4	8	1	1
Test & Trace Self-isolation Scheme	Satisfactory	-	1	2	-	-
Transport (Driver Licence Checks)	Significant	-	-	-	-	-

**Definitions of Assurance Levels and Recommendation Priorities**

Assurance Level	Definition
Significant	There is a sound system of internal control that is being consistently applied
Satisfactory	There is basically a sound system of internal control but there are some minor weaknesses and/or evidence of non-compliance that may put some minor system objectives at risk.
Limited	There are some weaknesses in the adequacy of the internal control system and/or the level of non-compliance puts some of the system objectives at risk.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

Priority	Definition
1	<b>Priority 1:</b> Serious weakness in the design of controls or consistent non-compliance with controls that could lead to a significant loss or damage to the Authority's assets, information or reputation that requires immediate action.

2	<p><b>Priority 2:</b> Fundamental weakness in the design of controls or consistent non-compliance with controls that could lead to a significant loss or damage to the Authority's assets, information or reputation.</p>
3	<p><b>Priority 3:</b> Weakness in the design of controls or inconsistency in compliance with controls that could cause limited loss of assets or information or adverse publicity or embarrassment.</p>
4	<p><b>Priority 4:</b> Minor weakness in the design of controls or inconsistency in compliance with controls that could result in inefficiencies</p>
5	<p><b>Priority 5:</b> Recommended best practice only.</p>



## Summary of Follow-up Reviews

### Debtors

Of the eleven recommendations made, all have either been completed or are in progress. Our audit opinion therefore remains unchanged as '**Satisfactory Assurance**'.

### Corporate Credit/Procurement Cards

Of the five recommendations made four have been actioned and one is in progress. Our overall audit opinion was therefore revised from '**Limited**' to '**Satisfactory Assurance**'.

### Energy Management

Of the two recommendations made, both had been actioned. Our overall audit opinion was therefore revised from '**Satisfactory**' to '**Significant Assurance**'.

### Environmental Health Licences

One recommendation was made that has been partially addressed regarding potential unregistered/un-licensed skin piercing operators. Our overall audit opinion at this stage remains unchanged, as '**Satisfactory Assurance**'.

### Ethics (Gifts, Hospitality, and Declaration of Interest)

Of the five recommendations made, two have been actioned and three are in progress. Our overall audit opinion therefore remains unchanged as '**Satisfactory Assurance**'.

### Housing Repairs

One recommendation was made and is currently in progress. Our overall audit opinion at this stage remains unchanged, as '**Satisfactory Assurance**'.

### Independent Living Service

Of the 21 recommendations made, all have either been completed, are on-going or no further action required. Our overall audit opinion has been revised from '**Satisfactory Assurance**' to '**Significant**' for the Independent Living Service administrative arrangements and from '**Limited Assurance**' to '**Satisfactory**' for the Health & Safety arrangements.

### Miscellaneous Cash

Of the six recommendations raised, five have been addressed and one action remains in progress. Our overall audit opinion therefore remains unchanged as '**Satisfactory Assurance**'.

### **Right To Buy Scheme**

Of the seven recommendations made, two were no longer applicable, three completed and two are outstanding. The two outstanding issues relate to:

- the Right To Buy process flowchart within the Legal Case Management System is defective and cannot be opened. In the event that the officer responsible for dealing with the Right To Buy applications is not available, the lack of any written procedures may impact on service delivery. (Priority 3)
- the Right To Buy overlay within the Geographic Information System has not been fully updated with details of the disposals, as the staff responsible for maintaining the system have not been trained (Priority 3)

Our overall audit opinion remains unchanged as '**Satisfactory Assurance**'.

### **Transport**

Of the three recommendations made, they all have either been completed or are in progress. Therefore, our audit opinion remains unchanged as '**Satisfactory Assurance**'.

<b>Assurance Level</b>	<b>Definition</b>
Significant	There is a sound system of internal controls that are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.
Limited	There are some weaknesses in the adequacy of the internal control system and/or the level of non-compliance puts some of the system objectives at risk.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

**Summary of Follow up Reviews**

<b>Subject</b>	<b>Original Number Recommendations</b>	<b>Outstanding Recommendations</b>	<b>Priority of Outstanding Recommendations</b>	<b>Revised Assurance Level</b>
Transport	11	0		Satisfactory
Corporate Credit Cards	5	0		Satisfactory
Energy Management	2	0		Satisfactory
Environmental Health Licences	1	0		Satisfactory
Ethics	5	0		Satisfactory
Housing Repairs	1	0		Significant
Independent Living Service	21	0		Satisfactory
Miscellaneous Cash	6	0		Significant
Right to Buy	7	2	Priority 3 * 2	Satisfactory
Transport	3	0		Satisfactory
<b>Totals</b>	<b>62</b>	<b>2 (3%)</b>	<b>Priority 3 * 2</b>	

**NUNEATON AND BEDWORTH BOROUGH COUNCIL**

**Report to:     Audit and Standards Committee – 20<sup>th</sup> July 2021**

**From:           Head of Audit and Governance**

**Subject:        Internal Audit Plan 2021-22**

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**1. Purpose of the Report**

- 1.1    The purpose of this report is for the Committee to agree proposed changes to the approved internal audit plan for 2021-22.

**2. Recommendations**

- 2.1    That the proposed changes to the internal audit plan at Appendix A to this report be approved.

**3. What the Committee is being asked to consider?**

- 3.1    That the approach taken to adjust the internal audit plan for 2021-22 is reasonable.

**4. Background**

- 4.1    The internal audit plan for 2021-22 at Appendix A was approved by the Audit and Standards Committee in March 2021. At the extraordinary meeting of this Committee on 20<sup>th</sup> June 2021 the following additional audit work was requested and agreed:

- Civic Hall;
- Delegated authority procedure;
- Community groups that have been funded over the last 10 years;
- Compensation claims made in the last 10 years, including compromise agreements;
- S106 monies; and
- Notices issued to residents over the last 2 years.

- 4.2    Given the internal audit resources available it is very unlikely that the approved plan at Appendix A and the additional work detailed above can all be completed during 2021-22 so some adjustments to the plan will need to be agreed.

- 4.3    The audits highlighted in italics in Appendix A are those reviews that have either been completed or are in progress and those marked with an

asterisk (\*) are those that had to be deferred from the 2020-21 plan due to the Covid-19 pandemic restrictions as approved by the Audit and Standards Committee in November 2020.

- 4.4 It is therefore proposed that the deferred audits stay in the plan and are completed during 2021-22 and the new audits, which are highlighted in bold are set to one side until the additional work as listed in paragraph 4.1 above and the deferred audits are complete. If there is any capacity to complete any of the new audits during the year this will be done, and the risk rating will be used to prioritise them to ensure that the higher risk systems are completed first. Any audits that cannot be completed will be carried forward to the 2022-23 audit plan.
- 4.5 All follow-up reviews and annual audits that are considered to be the higher risk areas will be completed as planned.

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**Operational Audits**

- *Cemeteries and Crematorium\**
- *CCTV*
- *Community Centres\**
- **Corporate Governance**
- **Emergency Planning**
- *Events, Communications and Publicity\**
- **Health and Safety (exc. Asbestos Management and Fire Risk Management)**
- *Housing Lettings\**
- *Land Charges*
- *Mobile Phones\**
- **Resource Management**
- *Street Naming and Numbering*
- **VFM reviews**

**Annual Reviews**

- Asbestos Management
- Legionella
- Data Quality
- Water Bodies
- Transport (Driver Checks)

**Financial Audits**

- Council Tax\*
- Non-Domestic Rates\*

**Follow-up Reviews**

- Fire Risk Management
- Equality
- Housing Benefit
- Building Cleaning
- Car Parks
- Fixed Assets
- Pest Control Concession Expenditure
- Planning
- Pollution Control
- Open Space
- Post Project Implementation Reviews
- Safeguarding
- Civic Hall

**NUNEATON AND BEDWORTH BOROUGH COUNCIL**

**Report to: Audit and Standards Committee – 20<sup>th</sup> July 2021**

**From: Head of Audit and Governance**

**Subject: Internal Audit Charter**

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**1. Purpose of the Report**

- 1.1 The purpose of this report is for the Committee to consider and approve the Internal Audit Charter.

**2. Recommendations**

- 2.1 That the Internal Audit Charter at Appendix A to this report be approved.

**3. What the Committee is being asked to consider?**

- 3.1 That the Internal Audit Charter at Appendix A complies with the requirements of the Public Sector Internal Audit Standards (PSIAS).

**4. Background**

- 4.1 The PSIAS describe the internal audit charter as a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 4.2 For the public sector, the PSIAS also requires that the internal audit charter must:
- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
  - cover the arrangements for appropriate resourcing;
  - define the role of internal audit in any fraud-related work; and
  - describe safeguards to limit independence or objectivity if internal audit or the chief audit executive undertakes non-audit activities.
- 4.3 The internal audit charter at Appendix A was first drafted in 2013 when the PSIAS came into force and has been updated on several occasions since

then to ensure ongoing compliance with the standards and to ensure that it accurately reflects the Council's internal procedures. There are only a few proposed changes to the current charter, and these are highlighted in Appendix A by the use of track changes and can be summarised as follows:

- a sentence has been added to paragraph 10.2 to reflect the current requirement for all internal reports giving a 'limited assurance' opinion to be submitted to the Council's management team to ensure that appropriate action is being taken;
- paragraph 11.1 has been deleted and reference to the Council's external auditor has been made in paragraph 11.2. Whilst we still work closely with the external audit team from Grant Thornton the standards that they have to comply with no longer allow them to place any reliance on the work of our internal audit team, so it is not possible to co-ordinate plans;
- bullet point 3 in paragraph 12.2 has been removed as the Council's external auditor no longer carries out any formal reviews on the quality of the internal audit service, although internal audit work does help them assess risk when planning their work.

**LINDA DOWNES**



# **Nuneaton and Bedworth Borough Council**

## **Internal Audit Charter**

### **1. Introduction**

- 1.1 The Internal Audit Charter is a mandatory requirement of the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note. The PSIAS also includes a code of ethics which all internal auditors in UK public sector organisations must conform to. The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.
- 1.2 The Charter is a formal document that defines Nuneaton and Bedworth Borough Council's internal audit's purpose, authority, and responsibility. The Charter establishes internal audit's position within the organisation; authorises access to records, personnel, and physical properties relevant to performance of engagements; and defines the scope of internal audit activities.
- 1.3 The Charter must also:
- Define the terms "Board" and senior management for the purposes of internal audit activity;
  - Cover the arrangements for appropriate resourcing;
  - Define the role of internal audit in any fraud related work; and
  - Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
- 1.4 The Head of Audit and Governance will review the Charter annually and any necessary amendments will be endorsed and approved by the Audit and Standards Committee, who fulfil the role of the Board which has responsibility for final approval of the Charter as per the PSIAS. (see paragraph 3.2 below)

### **2. Statutory Requirements**

- 2.1 The requirement for an internal audit function is contained in the Accounts and Audit (England) Regulations 2015, which require the Council to:

*"Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".*

### **3. Definitions**

#### **3.1 The PSIAS define internal audit as:**

*“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

#### **3.2 The PSIAS define the ‘Board’ as:**

*“the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically this includes an independent group of directors (e.g. a board of directors, a supervisory board or board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organisation, “board” may also refer to an audit committee to which the governing body has delegated certain functions”.*

The role of the board as outlined above will be fulfilled by the Audit and Standards Committee.

#### **3.3 The role of senior management is fulfilled by the Council’s Management Team, which comprises the Executive Directors and all Directors. The role of the Chief Audit Executive will be fulfilled by the Head of Audit and Governance, who has responsibility for effectively managing the internal audit activity in accordance with the Charter, definition of internal audit, the code of ethics and the standards.**

### **4. Scope and Responsibility**

#### Assurance Activities

#### **4.1 The internal audit service is responsible for providing assurance in accordance with all relevant professional standards and guidance across the authorities entire control environment and across all activities, including:**

- Services provided on behalf of other organisations by the Council; and
- Services provided by other organisations on behalf of the Council.

### Advisory Activities

- 4.2 The internal audit service will advise on proposed changes and the controls to be incorporated into new and revised systems but the final decision on whether to accept the audit advice rests with the relevant manager. The provision of such advice does not prejudice the service's right to evaluate the established systems at a later date.

### Consultancy Services

- 4.3 At the request of management, the internal audit service shall undertake consultancy work designed to improve the effectiveness of risk management, control, and governance processes, subject to the availability of the right skills and experience.

### Fraud

- 4.4 Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. Internal auditors should, however, be alert to risks and exposures that could allow fraud or corruption to occur.
- 4.5 The Head of Audit and Governance must be notified of any suspected irregularity so that processes and procedures can be reviewed to prevent any further irregularities occurring. The relevant Director, in consultation with the Chief Finance Officer, will appoint an investigating officer. This will normally be the Head of Audit and Governance, particularly if the allegation is of a serious nature or if there is some form of financial irregularity.

## **5. Authority and Rights of Access**

- 5.1 Internal auditors shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation that the Audit and Governance Manager considers necessary to enable the internal audit service to fulfil its responsibilities. Auditors also have authority to access all relevant computer data as part of their work, including that registered under the Data Protection Act.
- 5.2 Internal audit is authorised to obtain the information and explanations they consider necessary from any employees, partners, or agents of the Council to fulfil their objectives and responsibilities. Managers must ensure that internal audit access is considered when preparing partnership agreements or contracts for the purchase or supply of goods and services.

- 5.3 The Head of Audit and Governance has the right of direct access to the Head of Paid Service, the Monitoring Officer, the section 151 Officer, Elected Members, the Chair of the Audit and Standards Committee, Directors and Senior Managers.
- 5.4 All records, documentation, and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. The Head of Audit and Governance and individual audit staff, including contractors and external service providers performing work on behalf of internal audit, are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

## **6. Independence and Objectivity**

- 6.1 The internal audit service is managed by the Head of Audit and Governance who is professionally qualified as required by the PSIAS. The Head of Audit and Governance direct reporting line is to the Director for Customer, Revenues and Assurance and also provides reports to the Audit and Standards Committee, which has responsibility for overseeing audit arrangements.
- 6.2 Independence is essential to the effectiveness of the internal audit service; so, it will remain free from interference in all regards. This shall include, but not be limited to, matters of audit selection, scope, procedure, frequency, timing, or report content.
- 6.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming a judgement.
- 6.4 The internal audit service is free to plan, undertake and report on its work, as the Head of Audit and Governance deems appropriate, in consultation with the Management Team and Senior Managers.
- 6.5 Directors and Senior Managers are fully responsible for the quality of the internal control environment within their area of responsibility. They should ensure that appropriate and adequate controls exist without depending upon internal audit activity.
- 6.6 The Head of Audit and Governance has executive responsibility for insurance, risk management, performance management, equalities, safeguarding, corporate fraud, information management and corporate governance. Any audits relating to these functions shall be overseen by the Director for Customer, Revenues and

Assurance to ensure that the internal auditors remain independent and objective in forming opinions and judgments in these areas.

## **7. Audit and Standards Committee**

7.1 The Council is responsible for maintaining an Audit and Standards Committee which complies with all relevant guidance. The Committee's responsibilities include:

- approving the internal audit charter;
- monitoring and reviewing the effectiveness of the internal audit function;
- agreeing the internal audit work programme and the adequacy of its resources and access to information to enable the service to perform effectively and in accordance with the relevant professional standards;
- considering the Head of Audit and Governance annual report and opinion, and summary of internal audit activity and the level of assurance it can give over the Council's corporate governance arrangements;
- reviewing and monitoring management's responsiveness to the findings and recommendations of the internal auditor; and
- reviewing the Audit and Standards Committee's own performance, constitution and terms of reference to ensure that it is operating effectively.

## **8. Standards**

8.1 The internal audit service operates in accordance with best practice and guidance in the PSIAS. All internal auditors are required to comply with the standards, all relevant ethical and technical standards issued by their professional bodies and with all relevant codes of conduct issued by the Council.

8.2 Internal auditors are expected to:

- Exercise due professional care based upon appropriate experience, training, ability, integrity, and objectivity;
- Maintain and keep up to date their professional knowledge and skills and to participate in any continuing professional development scheme (CPD) operated by their professional body;
- Participate in the Council's personal development scheme;
- Comply with the Council's rules relating to the declaration of interests; and
- Obtain and record sufficient audit evidence to support their findings and recommendations.

- 8.3 The internal audit service will safeguard the information obtained in carrying out its duties. Information obtained shall not be disclosed unless there is a legal or professional requirement to do so, or used for personal gain.

## **9. Planning**

- 9.1 Internal audit work is planned in order to establish priorities, achieve objectives, and ensure the efficient and effective use of audit resources. The objective of the internal audit plan is to enable the Head of Internal Audit to provide an annual opinion regarding the effectiveness of the Council's arrangements for risk management, governance, and control.
- 9.2 The Head of Audit and Governance produces an annual audit plan in consultation with the Management Team and Senior Managers, taking into account the key risks to the Council. The plan is endorsed by the Management Team and approved by the Audit and Standards Committee. It is the responsibility of the Management Team to ensure that the budget and resources allocated to internal audit are sufficient to enable the plan to be delivered.
- 9.3 Seven days notice will normally be given to the relevant manager of the start of an audit; however, the internal audit service reserves the right for unannounced visits if the Head of Audit and Governance considers it necessary. Terms of reference are prepared for each assignment, and these shall be discussed and agreed with the relevant manager before the work is started. Internal auditors shall minimise any disruption to the smooth running of the service whilst it is under review.

## **10. Reporting**

- 10.1 Significant audit findings are reported to the relevant manager in writing. The reports include an opinion on the adequacy of controls in the area reviewed, make recommendations for improvement, specify the officer responsible for implementing the recommendation and the implementation deadline. Opinions on individual assignments feed into the Head of Audit and Governance overall opinion given in the annual report to the Audit and Standards Committee.
- 10.2 Reports will be agreed with the relevant manager and the final agreed report will be copied to the relevant Director and Senior Manager, and the Director for Customer, Revenues and Assurance. Reports identifying significant financial issues will also be copied to the Chief Financial Officer. Reports that give a 'Limited Assurance' opinion on the control environment will be submitted to

Management Team to monitor and review and ensure that appropriate action is taken to improve controls.

- 10.3 The Head of Audit and Governance submits regular reports to the Audit and Standards Committee summarising the results of audit reviews and progress in implementing audit recommendations. An annual report is provided given an overall opinion on the Authority's control environment relating to risk management, governance and control, which feeds into the annual review of the effectiveness of the Authority's governance arrangements and the Annual Governance Statement.

## **11. Co-operation**

- 11.1 The Head of Audit and Governance will work in partnership with the Council's external auditor and other services on such matters as control, corporate governance, contracting, data protection and risk management.
- 11.2 Where services are provided by or to other organisations the Head of Audit and Governance is authorised to agree the responsibility for internal audit of those services with the internal audit of those organisations and to share relevant information. Managers setting up a shared service or partnership must consider the requirement for internal audit and include appropriate access rights in any agreement.
- 11.3 It is the responsibility of every manager to be open, frank and honest at all times about any risks, concerns or problems that may exist.

## **12. Quality Assurance and Improvement Programme**

- 12.1 The Head of Audit and Governance manages a quality assurance programme to ensure that internal audit work complies with professional standards and achieves its objectives. The Head of Internal Audit shall review the programme annually and report the outcomes in the Head of Audit and Governance annual report to support performance and inform planning and resources of the next year's internal audit plan.
- 12.2 The quality assurance programme includes:
- Suitable guidance, support and review of all internal audit work;
  - Seeking feedback from line managers on the quality of internal audit work and professionalism of the auditor;

- ; and
- Regular internal and external assessments of the effectiveness of the service in accordance with the PSIAS.

**Linda Downes**  
**Head of Audit and Governance**