

Audit Committee

Wednesday, 11 June 2014 at 10:30

County Hall, County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

- 1 To Note the appointment by the County Council on 15 May 2014 of Councillor Keith Walker as Chair of the Committee and Councillor Sheila Place as Vice-Chair
- 2 To Note the membership of the Committee

Councillors Reg Adair, Joyce Bosnjak, John Clarke, John Handley, David Kirkham, Darrell Pulk and Ken Rigby
- 3 Minutes 19 March 14 3 - 6
- 4 Apologies for Absence
- 5 Declarations of Interests by Members and Officers:- (see note below)
(a) Disclosable Pecuniary Interests
(b) Private Interests (pecuniary and non-pecuniary)
- 6 KPMG Audit Fees 2014-15 7 - 14
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- 9 Draft Annual Governance Statement 2013-14 51 - 62
- 10 Internal Audit Plan 2014-15 63 - 94

Notes

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

- (3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Sarah Ashton (Tel. 0115 977 3962) or a colleague in Democratic Services prior to the meeting.

- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.
- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>

Meeting AUDIT COMMITTEE

Date 19 March 2014 (commencing at 10.30am)

membership

Persons absent are marked with 'A'

COUNCILLORS

Sheila Place (Vice-Chairman)

Joyce Bosnjak
Richard Butler
John Clarke
John Handley

Richard Jackson
David Kirkham
Darrell Pulk
Ken Rigby

ALSO IN ATTENDANCE

Richard Walton - KPMG Ltd

OFFICERS IN ATTENDANCE

Sarah Ashton - Policy, Planning and Corporate Services

John Bailey)
Pauline Moore) Environment and Resources Department
Paul Bellamy)

MINUTES OF THE LAST MEETING HELD ON 2 DECEMBER 2013

The minutes of the last meeting of the Committee held on 2 December 2013, having been circulated, were confirmed and signed by the Chair.

TEMPORARY MEMBERSHIP CHANGES

The following changes of membership were reported to the meeting:-

- Councillor Richard Jackson replaced Councillor Keith Walker (for this meeting only).
- Councillor Richard Butler replaced Councillor Reg Adair (for this meeting only).

APOLOGIES FOR ABSENCE

None

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

CERTIFICATION OF GRANTS AND RETURNS – KPMG ANNUAL REPORT 2012/13

Pauline Moore (Senior Accountant) and Richard Walton (KPMG Ltd) presented the Certification of Grants and Returns report outlining KPMG's findings from the audit of the teacher's pension return and the local transport grant.

RESOLVED 2013/26

That the Certification of Grants and Returns for 2012/13 be noted.

KPMG EXTERNAL AUDIT PLAN 2013/14

Richard Walton (KPMG Ltd) presented the KPMG External Audit Plan 2013/14 confirming there were no time line issues and the fees were unchanged.

RESOLVED 2013/27

That the KPMG External Audit Plan 2013/14 be noted.

STATEMENT OF ACCOUNTS 2013/14 – ACCOUNTING POLICIES

Pauline Moore (Senior Accountant) presented the proposed accounting policies to be used in creating the Authority's statement of accounts 2013/14.

RESOLVED 2013/28

That the Statement of Accounts for 2013/14 be noted.

That the changes to Accounting Policies be approved.

STATEMENT ON CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

John Bailey (Head of Internal Audit) explained the level of compliance and proposed actions in the Quality Assurance and Improvement programme.

RESOLVED 2013/29

That the level of compliance with the Public Sector Internal Audit Standards be noted

That the actions proposed in the Quality Assurance and Improvement programme be approved.

NATIONAL FRAUD INITIATIVE 2012/13

John Bailey (Head of Internal Audit) and Paul Bellamy (Assistant Audit Team Leader) updated the Committee on the results to date of the Audit Commission's Data matching exercise and the National Fraud Initiative 2012/13.

RESOLVED 2013/30

That the National Fraud Initiative 2012/13 be noted.

WORK PROGRAMME

RESOLVED: 2013/31

That the Committee's work programme be noted.

PROTECTING THE PUBLIC PURSE – FRAUD BRIEFING 2013 (Presentation)

RESOLVED: 2013/32

That John Bailey would arrange a press release on behalf of the Committee that outlined the key points raised in the briefing.

The meeting closed at 11.45 am

CHAIRMAN

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT**KPMG - AUDIT FEES 2014/15****Purpose of the Report**

1. To inform Members of the proposed KPMG audit fees for 2014/15.

Information and Advice

2. The attached report details the indicative fees for forthcoming KPMG work in respect of Nottinghamshire County Council and Nottinghamshire Pension Fund.
3. Representatives of KPMG will be in attendance at the Audit Committee meeting and will present the key features of the letters and respond to Member's questions.

Statutory and Policy Implications

4. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That Members note the proposed KPMG audit fee levels and comment accordingly.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:

Nigel Stevenson (Group Manager – Financial Strategy & Compliance) Tel 0115 9773033

Constitutional Comments

5. Because this report is for noting only, no Constitutional Comments are required.

Financial Comments

6. The anticipated proposed total fees, excluding the indicative fee for grant claim certification, are £130,950 for Nottinghamshire County Council and £29,926 for the Nottinghamshire Pension Fund.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Electoral Division(s) and Member(s) Affected

All



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Private & confidential

Mick Burrows
Chief Executive
Nottinghamshire County Council
County Hall
West Bridgford
Nottingham, NG2 7QP

Our ref nb/dc

28/04/2014

Dear Mick

Annual audit fee 2014/15

I am writing to confirm the audit work and fee that we propose for the 2014/15 financial year at Nottinghamshire County Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

As we have not yet completed our audit for 2013/14 the audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative audit and certification fees for 2014/15 are shown below, along with a comparison to the prior year's audit. All fees are exclusive of VAT.

Audit area	Planned fee 2014/15	Planned fee 2013/14
Code of Audit Practice audit fee – Nottinghamshire County Council	£130,950	£130,950
Audit of Pension Fund	£29,926	£29,926
Certification of grant claims & returns	£0	£2,248

The fee is unchanged from the planned fee for 2013/14 and is in line with the scale fee recommended by the Audit Commission.

DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission. Subject to confirmation, we expect these new arrangements to apply to 2014/15 claims and returns and therefore the following schemes to fall outside the Commission's arrangements:

28/04/2014

- Teachers' pensions return (PEN05);

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the S151 officer and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Nottinghamshire County Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

The key members of our audit team for the 2014/15 audit are:

Name	Role	Contact details
Richard Walton	Manager	richard.walton@kpmg.co.uk 07917 232307
Sayeed Haris	Assistant Manager	sayeed.haris@kpmg.co.uk 07920 191951

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.



KPMG LLP

28/04/2014

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Neil Bellamy'.

Neil Bellamy
Director

cc: Paul Simpson, Director of Finance

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2014/15 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
External audit plan	January 2015
Interim audit report, if required	May 2015
Report to those charged with governance (ISA260 report)	September 2015
Pension Fund Audit Highlights memorandum	September 2015
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2015
Opinion on Whole of Government Accounts return	September 2015
Annual audit letter	November 2015

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT**MANDATORY INQUIRIES - 2013/14 STATEMENT OF ACCOUNTS****Purpose of the Report**

1. To inform Members of the External Auditors' requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit of the County Council's accounts for 2013/14 and to allow members to comment on the response related to 'Those Charged With Governance'.

Information and Advice

2. As part of the annual approach taken by our External Auditors, KPMG, seek responses to matters concerning the Council's approach and reporting on a number of areas, in particular related to themes surrounding fraud, litigation, laws and regulations, together with some areas specific to the accounts such as related parties and estimates used in the accounts. The responses to these questions form part of the overall audit and will inform the approach taken by KPMG to the audit of the Council's Statement of Accounts for 2013/14.
3. A number of what are termed mandatory questionnaires completed by Internal Audit, Legal Services and Management are attached to this report for information to Members which set out the responses to the inquiries made on the themes set out above.
4. Also attached for Members to comment upon is the questionnaire for completion by the Audit Committee as 'Those Charged with Governance'.

Statutory and Policy Implications

5. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That Members receive, and comment upon, the inquiries for those charged with governance for the 2013/14 audit of the Statement of Accounts.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:

Nigel Stevenson (Group Manager – Financial Strategy & Compliance) Tel 0115 9773033

Constitutional Comments (KK 21/05/2014)

6. The proposal in this report is within the remit of the Audit Committee.

Financial Comments

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

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Electoral Division(s) and Member(s) Affected

All

Inquiries – Legal

Name of Interviewee(s) : Heather Dickinson - Group Manager, Legal and Democratic Services

Date(s) of Interview : 21 March 2014

Required Inquiries

Category	Short Description	Detailed Description	Comments (optional)
Fraud	REQUIRED Management's assessment of fraud risks including the nature, extent and frequency of such assessment	What are your views about fraud risks at the entity?	As with any large and complex organization, the emphasis on reducing fraud risk is continuous. The results of the NFI, internal audit work and reported fraud, through management, employees and whistleblowing show a number of low value fraud areas. These are usually down to weaknesses in internal control which are exploited by employees.
Fraud	REQUIRED Actual, suspected or alleged instances of fraud	Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?	Yes, a range of issues have been identified during the year. These have been investigated in accordance with the Financial Regulations and the Fraud Manual
Litigation, claims and assessments	REQUIRED In-house legal counsel	Is the entity involved in any litigation, claims or assessments (including those defended by insurance companies)? - What is your assessment of such matters? - Which litigation, claims and assessments involving the entity may have a material effect on the financial statements and/ or may require disclosure in the financial statements? Note: Inquire of in-house legal counsel	Yes. Insurance claims managed by Risk and Insurance together with Council insurers. Non-insured cases managed by Legal Services together with appropriate external advisory support where appropriate with claims being pursued or settled on the basis of legal advice in accordance with provisions within



Category	Short Description	Detailed Description	Comments (optional)
			Constitution. Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually to Financial Services for reporting in annual statement of accounts.

Inquiries – Internal Audit

Name of Interviewee(s) : John Bailey – Head of Internal Audit

Date(s) of Interview : 13 March 2014

Required Inquiries

Category	Short Description	Detailed Description	Comments (optional)
Fraud	REQUIRED Fraud-related activities by the internal audit function	<p>What fraud related activities have been performed or are planned by the internal audit function If any fraud related activities are planned or performed:</p> <p>What antifraud control deficiencies have been identified by the internal audit function</p> <p>What fraud related reports or communications have been made by the internal audit function</p> <p>Have management and those charged with governance responded appropriately to such reports and communications</p>	<p>A recent review of the Red Book II has been completed which sets out strengths, weaknesses and an action plan for addressing the weaknesses.</p> <p>All suspected irregularities are required to be reported to Internal Audit, for determination on how to proceed. A number of reports have been issued in relation to suspected fraud, as well as referral to Police in appropriate cases. Management take suspected cases seriously and adopt a zero tolerance approach.</p>
Fraud	REQUIRED Actual, suspected or alleged instances of fraud	<p>Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets?</p> <p>If so, have the instances been appropriately addressed and how have they been addressed?</p>	<p>Yes, there have been a number of relatively low value (under £10k) concerns raised and investigated during 2013/14. They have been addressed by either referring to the Police, investigation by internal audit or investigation by management.</p>
Fraud	REQUIRED Internal audit's assessment of fraud risks	<p>What is internal audit function's assessment of the risks that the financial statements may be materially misstated due to fraud? What fraud risks have been identified?</p> <p>- Has management and those charged with</p>	<p>The assessment is that the risk is very low, given the high value (£10m) to constitute material misstatement and the range of officers involved the Authority's control framework, and</p>

Category	Short Description	Detailed Description	Comments (optional)
		governance responded appropriately to the identified risks?	the Authority's culture.
Fraud	REQUIRED Management's assessment of fraud risks including the nature, extent and frequency of such assessment	Are you aware of any instances of management override of controls? If so, what is the nature and circumstances of such overrides?	The Financial Regulations make provision for the rules to be waived when appropriate. The Section 151 officer / Head of Procurement / Head of Legal Services are responsible for approving any waiver. An annual report is made to the Audit Committee, setting out all waiver requests made during the year.

Inquiries - Management

Name of Interviewee(s) : Nigel Stevenson - Group Manager – Financial Strategy & Compliance

Date(s) of Interview : 23 April 2014

Required Inquiries

Category	Short Description	Detailed Description	Comments (optional)
Operations	REQUIRED Changes in the entity's business or environment including internal control	Have there been, or does the entity expect, any significant changes in its business or environment, including internal control?	There have been no major changes to the structure of the Authority through 2013/14 or any changes to major systems or internal controls. There continues to be financial issues facing the Authority like all Local Government, the Authority has plans in place to address.
Fraud	REQUIRED Communications to employees regarding management's views on business practices and ethical behavior	How does management communicate its views about acceptable business practices and ethical behavior to employees?	The Authority has a Code of Conduct for employees. The Code sets out in detail the standards of conduct required of its employees. See Section D35 of the Personnel Handbook.
Laws and regulations	REQUIRED Legal and regulatory frameworks applicable to the entity	What legal and regulatory frameworks are applicable to the entity?	The Council is governed by all national and EU legislation and rules applicable to all upper tier public Local Authorities in England.
Litigation, claims and assessments	REQUIRED Identifying and addressing litigation, claims	What policies, procedures and controls has management established for identifying, evaluating, accounting for and disclosing litigation, claims and assessments?	Litigation claims and assessments are received and managed by the Council's Legal Section or Risk and Insurance section depending on

Category	Short Description	Detailed Description	Comments (optional)
	and assessments		whether insured risks or not. Annual statement in accounts regarding contingent assets and liabilities following enquiries of staff in service departments, Legal Services and Risk and Insurance. Provisions in Constitution and Financial Regulations regarding settlement of claims.
Fraud	REQUIRED Programs and controls to prevent, detect and deter fraud - monitoring	What programs and controls has management established to prevent, detect, deter and mitigate fraud? How does management monitor these programs and controls?	Management has a comprehensive set of internal controls to prevent fraud. The requirements are set out in Financial Regulations and these are complemented by more detailed guidance at departmental level. A comprehensive rolling programme of internal audit work is in place to provide assurance that these controls are in place, effective, and complied with. Staff are reminded of the need for vigilance from time to time, using CBT and newsletters. The Authority has a whistle blowing policy with reminders to staff and monitoring of reports and resulting outcomes.
Fraud	REQUIRED Monitoring of operating locations or business segments for fraudulent activities	What is the nature and extent of management monitoring of operating locations or business segments for fraudulent activities, including fraudulent financial reporting?	Management monitor their individual areas on an on-going basis and report to their respective departmental management teams. There is a requirement to report any suspected irregularities to Internal Audit, who will determine how to proceed in individual cases, including reporting to Police, investigation by internal audit and investigation by

Category	Short Description	Detailed Description	Comments (optional)
			management.
Fraud	REQUIRED Monitoring of operating locations or business segments with risk of fraud	Are there particular operating locations or business segments for which a risk of fraud may be more likely to exist?	Operating locations with high turnover and cash income are recognized as having higher risk. Risks from payments and payroll systems are high due to value. Internal Audit work is prioritised in these areas.
Fraud	REQUIRED Management's process for identifying and responding to fraud risks	What process has been established to identify and respond to fraud risks? Note: consider inquiries about whether the process takes into consideration: --Fraud risk related to specific classes of transactions, account balances or disclosures; --Possibility of manipulation of information technology; --Incentive/ pressure, opportunity and attitude/ rationalization for fraud; --Fraud schemes common in the industry/ market?	A range of processes are used. These include close analysis of all the Authority's activities and the risk they pose in terms of loss through error / fraud/ reputation, exchange of information with other county councils, local district councils and neighbouring authorities, consideration and dissemination of information provided by NAFN, past experience of fraud in the Authority and regular scanning of the media to identify losses / issues in other organisations.
Fraud	REQUIRED Management's process for identifying and responding to fraud risks – communications between management and those charged with governance	What is the nature and extent of the communications between management and those charged with governance regarding management's process for identifying and responding to fraud risks?	A general review of fraud risk is completed as part of the annual planning process for the internal audit plan. This is reported to the Audit Committee, together with regular updates on progress against the Plan and an Annual Report. The AGS also covers fraud risk and how this is addressed. A review of the Red Book has recently been carried out and will be reported to those charged with governance.
Fraud	REQUIRED	Are you aware of or have you identified any	Yes, a range of issues have been

Category	Short Description	Detailed Description	Comments (optional)
	Actual, suspected or alleged instances of fraud	instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?	identified during the year. These have been investigated in accordance with the Financial Regulations and the Fraud Manual.
Fraud	REQUIRED Management's assessment of fraud risks, including the nature, extent and frequency of such assessment	How does management assess the risks that the financial statements may be materially misstated due to fraud? What fraud risks have been identified? What is the nature, extent, and frequency of such assessment? What is the entity's response to identified fraud risks, including controls to mitigate the risks?	A material misstatement would require a fraud of £10m. The key systems which could result in a misstatement of this scale are audited on a rolling programme. The Authority has a broad range of controls in place over the key systems to mitigate the risk of a material misstatement.
Going concern	REQUIRED Identified events or conditions (and related business risks) that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern	Are there any events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern during the period of assessment used by management or after such period? (Note: the period of management's assessment shall be at least, but not limited to, twelve months from the date of the financial statements being audited, or a longer period of time if required by the applicable financial reporting framework, by law or regulation or by auditing standards)	The report to County Council on 27 th February 2014 included an assessment of all significant business and financial risks and the risk actions/controls applied in mitigating these risks. The formal assessment by the Section 151 Officer took into account these risks in determining their assessment of going concern.
Laws and regulations	REQUIRED Laws and regulations that have a direct effect on	What laws and regulations have a direct effect on the determination of material amounts or disclosures in the financial statements?	The Code of Practice on Local Authority Accounting in the UK.

Category	Short Description	Detailed Description	Comments (optional)
	material amounts or disclosures in the financial statements		
Laws and regulations	REQUIRED Compliance with legal and regulatory framework	How is the entity complying with the legal and regulatory framework?	Decision making is undertaken by Committees and other meetings of County Council based on reports following a standardised template with sections covering financial, legal, human rights, equalities implications etc. Each report is checked for legal and regulatory compliance prior to publication. In addition each department and service area is aware of the legal and regulatory framework relevant to their areas and appropriately qualified staff are recruited and trained in relevant processes and procedures. There is oversight by relevant government and other agencies tasked with monitoring standards and compliance. Periodic internal audit inspections of each service area. Available legal advice for any casework or individual queries.
Laws and regulations	REQUIRED Compliance with legal and regulatory framework - directives or periodic representations	Are there directives issued by the entity or periodic representations obtained by the entity from management at appropriate levels of authority, concerning compliance with laws and regulations?	Financial Regulations, Constitution, terms and conditions of employment, service related communications to relevant staff about their roles and responsibilities. Also inspections for accreditation purposes by various professional bodies and for the purposes of relevant statutory

Category	Short Description	Detailed Description	Comments (optional)
			inspections such as Ofsted etc.
Laws and regulations	REQUIRED Prevention of noncompliance with laws and regulations	What policies, procedures, and controls has management established to prevent instances of noncompliance with laws and regulations, including illegal acts?	Decision making by Committees subject to appropriate advice via standardised committee reports covering relevant issues for consideration. Annual governance statement. Internal Audit procedures, Legal advisory support from in-house and external legal advisors on different areas of service delivery, training and development of staff from both internal and external sources, accreditation with relevant professional bodies, whistle blowing policy, Financial Regulations, contract procedures, complaints procedures, internal and external investigations, HR procedures, terms and conditions of employment including disciplinary procedures etc.
Laws and regulations	REQUIRED Actual, suspected or alleged instances of noncompliance with laws and regulations, including illegal acts	Are you aware of any instances of actual, suspected or alleged noncompliance with laws and regulations, including actual or possible illegal acts?	Internal Audit deal with allegations of fraud or criminal behaviour which is reported to the relevant authorities for investigation. Not aware of any other instances of non-compliance which would be required to be reported to the Council's Monitoring Officer and to the Council if they arose.
Litigation, claims and assessments	REQUIRED Identified litigation and claims	- Is the entity involved in any litigation, claims or assessments (including those defended by insurance companies)? - What is management's assessment of such matters?	Yes. Insurance claims managed by Risk and Insurance together with Council insurers. Non-insured cases managed by Legal Services together with appropriate external advisory

Category	Short Description	Detailed Description	Comments (optional)
		- Which litigation, claims and assessments involving the entity may have a material effect on the financial statements and/ or may require disclosure in the financial statements?	support where appropriate with claims being pursued or settled on the basis of legal advice in accordance with provisions within Constitution. Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually to Financial Services for reporting in annual statement of accounts.
Related parties	REQUIRED Identified related parties, including any changes from the prior period and the nature of the relationships	Who are the entity's related parties? Are there any changes in related parties from the prior period? - If there are related parties, what is the nature of the relationship between the entity and each related party?	Central Government – receive grants/funding. Nottingham and Nottinghamshire Futures Limited, CLASP and SCAPE - shareholders. Pooled arrangements for Integrated Community Equipment. Administering Authority for the Nottinghamshire LGPS. In previous years there were no related parties identified through Chief Officers or Members declarations, however, this has yet to be assessed as part of the 2013/14 closedown.
Related parties	REQUIRED Identified transactions with related parties	Have there been any transactions with the identified related parties during the period, including with management or those charged with governance? - If so, who are the parties, what are the transactions and what is the business rationale or purpose for the transactions?	Analysis yet to be undertaken
Related parties	REQUIRED Transactions with no	Are there any transactions that are not being given accounting recognition? - If so, what is the business and accounting	All transactions will be recognised in accordance with the Code of Practice on Local Authority

Category	Short Description	Detailed Description	Comments (optional)
	accounting recognition	rationale for no accounting recognition?	Accounting
Estimate	REQUIRED Estimates - changes in circumstances	<p>Have there been changes in circumstances that may give rise to new or the need to revise existing accounting estimates?</p> <p>Note: the following are examples of changes in circumstances that may give rise to new or the need to revise existing accounting estimates:</p> <ul style="list-style-type: none"> - the entity engaged in new types of transactions that may give rise to accounting estimates - the terms of transactions that give rise to accounting estimates changed - accounting policies relating to accounting estimates changed as a result of changes to the requirements of the applicable financial reporting framework or otherwise - regulatory or other changes outside the control of management occurred that may require management to revise or make new accounting estimates - new conditions or events occurred that may give rise to the need for new or revised accounting estimates 	There have been no changes to the accounting policies from the previous year or any changes to the critical judgements in applying the accounting policies that will affect the accounting estimates. Consequently there has been no revisions approach in determining the accounting estimates.
Accounting Policies	REQUIRED Compliance of accounting policies/ practices	<p>Are there any accounting policies / practices used by the entity in preparing its (consolidated) financial statements that are not:</p> <ul style="list-style-type: none"> - in accordance with the applicable financial reporting framework - appropriate for its business - consistent with accounting policies used in the entity's industry? 	All accounting policies are in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom.
Related parties	REQUIRED Policies	What policies procedures and controls has management established for identifying related	All accounting policies are in compliance with the Code of Practice

Category	Short Description	Detailed Description	Comments (optional)
	procedures and controls	parties and authorizing approving monitoring accounting for and disclosing related party transactions and arrangements including those outside the normal course of business?	on Local Authority Accounting in the United Kingdom.
Going concern	REQUIRED Managements assessment of the entity's ability to continue as a going concern	Has management made an assessment of the entity's ability to continue as a going concern? If so, what is management's assessment of the entity's ability to continue as a going concern? If not, what is management's basis for the intended use of the going concern assumption?	The County Council on 27 th February 2014 set the annual budget, capital programme to 2017/18 and Medium Term Financial Strategy to 2017/18. This report included the formal assessment by the Section 151 Officer on the robustness of the Budget Estimates and the adequacy of the County Council's reserves in accordance with the 2003 Local Government Act. This indicates the Section 151 Officer has considered that the Authority has been assessed as a going concern.

Inquiries—Those Charged With Governance

Name of Interviewee(s) : Audit Committee

Date(s) of Interview : 11 June 2014

Required Inquiries

Category	Short Description	Detailed Description	Comments (optional)
Fraud	REQUIRED Programs and controls to prevent, detect and deter fraud – oversight by those charged with governance	How do those charged with governance provide effective oversight of the entity's programs and controls to prevent, detect and deter fraud, including oversight over internal controls management has established to mitigate fraud risks?	The Corporate Leadership Team and the Audit Committee are consulted on the Annual Internal Audit Plan. Periodic updates against the Plan are provided. An Annual Report on Internal Audit work is provided. Copies of Internal Audit reports are widely disseminated, including to Corporate Directors, Members and the Operational Manager concerned.
Fraud	REQUIRED Management's assessment of fraud risks including the nature, extent and frequency of such assessment	What are your views about fraud risks at the entity?	As with any large and complex organization, the emphasis on reducing fraud risk is continuous. The results of the NFI, internal audit work and reported fraud, through management, employees and whistleblowing show a number of low value fraud areas. These are usually down to weaknesses in internal control which are exploited by employees.
Fraud	REQUIRED Actual, suspected or alleged instances of fraud	Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been	Yes, a range of issues have been identified during the year. These have been investigated in accordance with the Financial Regulations and the Fraud Manual

Category	Short Description	Detailed Description	Comments (optional)
		addressed?	
Laws and regulations	REQUIRED Compliance with legal and regulatory framework	How is the entity complying with the legal and regulatory framework?	<p>The Council has a clear line of responsibility and accountability surrounding compliance with the myriad of National and EU legislation and rules applicable to all upper tier public Local Authorities in England, which are set out in the Constitution and Financial Regulations.</p> <p>A number of external bodies, including External Auditors, Ofsted etc. assist in ensuring issues of non-compliance are openly reported to those charged with Governance.</p>

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT**INTERNAL AUDIT ANNUAL REPORT – 2013/14****Purpose of the Report**

1. To inform Members of the Head of Internal Audit's Annual Report on the work carried out by Internal Audit in 2013/14, and based on this work, his opinion on the adequacy of the County Council's internal control environment.

Information and Advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The Audit Service worked to the Public Sector Internal Audit Standards during 2013/14. One requirement of the Code is that the Head of Internal Audit should provide an annual written report to those charged with governance. The report must:-
 - a) deliver an annual internal audit opinion that can be used by the organisation to inform its governance statement
 - b) conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control
 - c) incorporate the opinion, a summary of the work that supports that opinion, and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
4. The Head of Internal Audit has set out the work completed during 2013/14, provided an analysis of the Audit Opinions reached in individual audits during the year, identified all those reports where the Opinion was that the level of internal control was for limited assurance, and come to a conclusion on the overall system of internal control.
5. The Head of Internal Audit's conclusion is that the **overall system of internal control was good during 2013/14.**

6. The Annual Report also sets out an analysis of the Audit Section's performance during 2013/14 in Table 3. The performance of the Section has been generally on target during the year, with the number of days completed meeting the target of 90% of the Audit Plan. In addition, the response of managers to the recommendations made has continued to be positive, whilst the Customer Satisfaction Score averaged 1.6 (on a scale where 1 is excellent and 5 is poor).

Other Options Considered

7. The Audit Section worked to the Public Sector Internal Audit Standards during 2013/14. This report meets the requirement of the Standards to provide an Annual Report. No other option was considered.

Reason/s for Recommendation/s

8. To set out the Annual Report of the Head of Internal Audit for 2013/14.

Statutory and Policy Implications

9. The Local Government Act 1972 requires, in Section 151 that the Authority appoint an officer who is responsible for the proper administration of the Council's financial affairs. The Service Director – Finance and Procurement is the designated Section 151 officer within Nottinghamshire County Council. Section 6 of the Accounts and Audit Regulations 2011 requires Local Authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The County Council has delegated the responsibility to maintain an internal audit function for the Authority to the Service Director - Finance and Procurement.
10. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That Members note the Head of Internal Audit's Annual Report for 2013/14 and comment accordingly.

Paul Simpson
Service Director - Finance and Procurement

For any enquiries about this report please contact:

John Bailey

Head of Internal Audit Tel: 01159772226

Constitutional Comments

11. The report is for noting only

Financial Comments (JMB 2/5/14)

12. There are no direct financial implications arising from this report. The net cost of the Internal Audit Section for 2013/14 was approximately £304,000 with an underspend of approximately £56k due to vacancies.

Background Papers.

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972:

The Audit Reports set out in Appendix 2 of the Annual Report are available as background papers.

Electoral Division(s) and Member(s) Affected

All

Internal Audit

Annual Report

2013/14

Purpose of the Report

1. To set out the work carried out by Internal Audit during 2013/14, and based on this work, to provide an opinion on the adequacy of the County Council's internal control environment.

Information and advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to ensure that the Authority's systems and procedures achieve their objectives. In order to identify the key areas to be audited, Internal Audit carries out a risk assessment of the Council's financial and other systems which, following consultation, forms the basis of the annual Audit Plan. Audits during 2013/14 were carried out in accordance with the Public Sector Internal Audit Standards, which define the standards that should be followed to achieve best professional practice.

Summary of Internal Audit Work for 2013/14

4. The audits completed during 2013/14 covered a broad range of the Authority's services, systems and processes, with reviews carried out at establishment, divisional, departmental and corporate levels. The time spent on audit work compared to that planned is shown in Appendix 1. The total time delivered on audit work (1939 days) is below the original plan (2125 days). This is due to there being a number of vacancies during the year. Audit work has been prioritised by detailed discussions with managers across the Authority. There were 133 audit jobs completed during the year on County Council systems and procedures.
5. Of the 133 County audit jobs, 28 were on areas where the usual audit opinion is not provided, for example on irregularities, grant claims, provision of detailed advice on changes in procedures and work requested by departments. The remainder (105 reports) were issued on the Authority's operations and contained an internal audit opinion on the financial controls and procedures in place, categorised as follows:-

Substantial Assurance – there are no weaknesses or only minor weaknesses

Reasonable Assurance – most of the arrangements for financial management are effective, but some weaknesses have been identified

Limited Assurance – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified.

6. A detailed analysis of all the reports issued during 2013/14 is set out in Appendix 2. Table 1 below analyses the opinions given on the individual reports by department.

Table 1: Analysis of Audit Opinions during 2013/14

Department	Opinion on Level of Assurance			Total
	Substantial	Reasonable	Limited	
Children Families and Cultural Services	4	3	-	7
Schools	18	35	2	55
Adult Social Care, Health and Public Protection	2	12	-	14
Environment and Resources	3	15	2	20
Policy, Planning and Corporate Services	1	1	1	3
Public Health	-	1	-	1
Cross Cutting	-	2	3	5
TOTALS	28	69	8	105
Percentage	27%	65%	8%	100

7. There were 683 individual recommendations for change during the year. The managers of the service are required to formally respond to each recommendation and the vast majority of recommendations (98%) were agreed for implementation.
8. From the table, it can be seen 97 of the 105 areas reviewed during 2013/14 had an opinion that the level of internal control was sufficient (i.e. substantial assurance or reasonable assurance). This equates to 92% of the areas reviewed. There were 8% of areas audited which were categorised as limited assurance. The details of these reports are set out in Appendix 3. These audits revealed weaknesses requiring urgent action to strengthen the systems and procedures in

place. The weaknesses identified covered a diverse range of issues including the need for:

- Training and compliance with Financial Regulations
- Failure to monitor and control central systems
- Failure to adhere to agreed procedures

9. The trend in audit opinions over the last 5 years is shown in the table 2 below.

Table 2: Trend in Audit Opinions over the last 5 years

Year	Number of reports	Substantial Assurance	Reasonable Assurance	Limited Assurance
2009/10	155	21 (13%)	116 (75%)	18 (12%)
2010/11	150	40 (27%)	100 (67%)	10 (7%)
2011/12	133	43 (32%)	76 (57%)	14 (11%)
2012/13	98	29 (30%)	54 (55%)	15 (15%)
2013/14	105	28 (27%)	69 (65%)	8 (8%)

10. As can be seen from the chart above, the number of limited assurance audit opinions during 2013/14 has decreased compared to the previous year. The Authority has undertaken significant changes during 2011 and 2012, including the introduction of the new Business Management System (BMS), reorganisation of departments, services and organisational structures, with the loss of a number of experienced employees. These changes have now become “business as usual” as the new systems have bedded in.
11. The 28 special projects during the year covered a range of issues including:-
- Following up concerns over the operation of Imprest accounts where they have become overdrawn
 - Advice on the implementation of Lean plus reviews
 - Advice on the new Civica Income system
 - Provision of advice on cheque scams
 - Follow up of information arising from the National Fraud Initiative
 - Carrying out a number of grant audits
 - Work on suspected irregularities and whistleblowing complaints

Annual Governance Statement

12. The Accounts and Audit Regulations 2011 require the Authority to publish an Annual Governance Statement with its Accounts. The Statement focuses on the Authority’s system of governance and internal control which facilitates the effective exercise of its functions and the achievement of its objectives. Internal Audit’s work contributes

to the assurance process detailed in the Annual Governance Statement.

13. The individual audit opinions set out in paragraph 6 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. As 92% of the audits undertaken identified that appropriate controls were found to be in place, Internal Audit's overall opinion is that the Authority's system of internal control is good. However, the fact that 8% of systems or procedures were found to provide limited assurance is a cause for concern, and it is essential that the control weaknesses in these areas are addressed. Follow up audits will be carried out to ensure that the recommendations made have been implemented.

Internal Audit Performance Indicators

14. A number of performance measures and indicators are monitored to assist in the delivery of the Section's objectives. Performance against these key indicators was as set out in Table 3 below.

Table 3: Analysis of Performance Indicators 2013/14

Indicator	Target	Outcome
Comply with Public Sector Internal Audit Standards	Substantial compliance	Internal review shows 96% compliance
Completion of Audit Plan:- Number of days Audits completed	90% 90%	90% 97%
Customer Satisfaction score	Under 2	Average 1.6
Recommendations accepted	95% acceptance	98% accepted
Productive time	Over 70%	69% achieved
Net audit cost per £1m turnover for 2013/14	£650	£329
External audit review	Positive	Positive

15. Overall, performance during the year has been in line with target. The number of audit days provided was 90% of the planned days due to a number of vacancies within the Audit Section. The number of audit jobs completed was slightly below plan.
16. During the year, the section has continued to use a Customer Satisfaction questionnaire, and has maintained very positive results. The vast majority of recommendations made have been agreed for implementation (97%).
17. The net audit cost per £1m turnover for 2013/14 was £329, which is significantly below the county council average. The net cost in 2014/15 will be similar to 2013/14.

Quality Assurance Programme

18. The Public Sector Internal Audit Standards require Internal Audit Sections to develop a Quality Assurance and Improvement Programme to ensure that appropriate quality standards are being applied. An internal review was carried out during the year and the results reported to the Audit Committee in March 2014, together with an Action Plan to address identified weaknesses.
19. As a local authority, the County Council does not comply with some of the Standards. The requirement for the Chief Audit Executive (Head of Internal Audit at Nottinghamshire County Council) to report to an organisational level equal or higher than the corporate management team is not met. In practice, the Head of Internal Audit's line manager is the Service Director, Finance and Procurement. A further requirement is that the audit budget and resource plan be approved by the Board (Audit Committee). In practice, the budget is agreed as part of the budget setting by Full Council in February each year. In addition, the requirement for the appointment and removal of the Chief Audit Executive to be approved by the Board is not met, as this is dealt with by delegated powers under the Constitution. Following discussions at Corporate Leadership Team, it was agreed that changes will be made to comply more fully with the Standards, including regular (quarterly) reports to the Chief Executive and Corporate Leadership Team and review of the budget for internal audit by Audit Committee.
20. An updated Quality Assurance and Improvement Programme has been developed and is attached as Appendix 4, setting out progress against the plan.

Conclusion

21. The work undertaken by Internal Audit during 2013/14 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. However, the fact that 8% of systems or procedures were found to be unsatisfactory is a cause for concern, and it is essential that the control weaknesses in these areas are addressed.

John Bailey BSc CPFA
Head of Internal Audit
Nottinghamshire County Council

INTERNAL AUDIT ANNUAL PLAN REPORT 2013/14**PERFORMANCE AGAINST PLAN**

	Annual Plan Days	Actual Days	Variance Days
Cross cutting work	397	303	-94
Children, Families and Cultural Services	219	188	-31
Schools	403	416	+13
Adult Social Care and Health	260	264	+4
Environment and Resources	470	460	-10
Policy, Planning and Corporate Services	80	74	-6
Public Health	-	30	+30
Contingency	100	-	-100
County Council Total	1,929	1,735	-194
External Contracts	196	204	+8
OVERALL TOTAL	2,125	1,939	-186

APPENDIX 2

INTERNAL AUDIT PLAN 2013/14 Audits Completed 1 April 2013 to 31 March 2014

Audit Report Department and Area audited	Audit Opinion on Assurance	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
Adult Social Care, Health and Public Protection							
Direct Payments monitoring – follow up	Reasonable	-	1	2	-	1	2
Homecare Management system	Reasonable	2	7	-	2	7	-
Framework/i follow up	Reasonable	-	-	-	-	-	-
Meals at Home Income – 2 nd follow up	Reasonable	-	2	-	-	2	-
Mental Health Service	Reasonable	1	1	-	1	1	-
External Day Service Commissioning	Reasonable	-	7	-	-	7	-
The i-work Team	Reasonable	-	3	1	-	3	1
Scambusters project grant	Reasonable	-	-	-	-	-	-
Operation Spinnaker grant (investigation of suspected fraud by Trading Standards units)	Reasonable	-	-	-	-	-	-
Fairer Contributions and Financial Assessments	Substantial	-	-	3	-	-	3
Integrated Community Equipment Service	Reasonable	-	3	2	-	3	2
Mental Health Services	Reasonable	1	1	-	1	1	-
Services to Care Self-funders	Reasonable	-	5	3	-	5	3
Business Support	Substantial	-	-	3	-	-	3
Sub Total		4	30	14	4	30	14
Children, Families and Cultural Services							
External placements for looked after children	Reasonable	-	5	-	-	5	-
School funding formula	Substantial	-	-	-	-	-	-
Public Libraries	Reasonable	-	2	2	-	2	2
PFI schools – contract monitoring	Substantial	-	1	-	-	1	-
National Award for Special Educational Needs							

Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
coordination	Reasonable	-	-	-	-	-	-
Country Parks and Green Estate	Substantial	-	3	3	-	3	3
School Funding Formula	Substantial	-	-	-	-	-	-
Sub Total		-	11	5	-	11	5
School Audits							
Secondary Schools (2 final reports issued)	Overall, 18	1	20	4	1	20	4
Primary Schools (53 final reports issued)	Substantial, 35	14	372	75	14	364	75
	Reasonable and 2 Limited Assurance						
Environment and Resources							
IT Data Backup	Reasonable	-	3	-	-	3	-
Street Lighting	Limited	2	3	1	2	3	1
Flood Risk Management	Reasonable	-	2	1	-	2	1
Cleaning Service – follow up	Limited	-	9	4	-	9	4
IT Database Management	Reasonable	1	3	2	1	3	2
BMS Accounts Receivable Process Maps	Reasonable	-	3	-	-	3	-
Car Loans – follow up	Reasonable	-	-	-	-	-	-
IT Server Virtualisation	Reasonable	-	1	-	-	1	-
Carbon Reduction Commitment return	Reasonable	-	-	-	-	-	-
Fuel Cards	Reasonable	-	-	-	-	-	-
Medium Term Financial Strategy	Substantial	-	-	2	-	-	2
BMS Account Receivable	Reasonable	-	3	-	-	3	-
Estate Management	Reasonable	1	6	4	1	6	4
BMS Payroll	Reasonable	-	3	1	-	3	1
Street Lighting follow up	Reasonable	-	-	-	-	-	-
BSC Competency Centre	Reasonable	1	6	-	1	6	-

Concessionary Fares	Substantial	-	-	1	-	-	1
Cleaning Service – follow up	Reasonable	-	2	3	-	2	3
School Meals – follow up	Reasonable	-	3	-	-	3	-
Libraries Public Web Access	Substantial	-	-	-	-	-	-
Sub Total		5	47	19	5	47	19
Policy, Planning and Corporate Services							
Broadband Project	Substantial	-	3	1	-	3	1
Grant Aid	Limited	2	5	7	2	4	6
Departmental employee controls	Reasonable	-	4	-	-	4	-
Sub Total		2	12	8	2	11	7
Public Health							
Contracting	Reasonable	-	2	-	-	2	-
		-	2	-	-	2	-
Cross Cutting Reviews							
Corporate Procurement	Limited	1	12	6	1	9	3
Imprest Accounts	Limited	-	3	4	-	3	4
Business Continuity	Limited	1	3	3	1	3	3
Purchase Cards – follow up	Reasonable	-	4	1	-	4	1
Annual Governance Statement	Reasonable	-	-	-	-	-	-
Sub Total		2	22	14	2	19	11
<u>TOTAL</u>		28	516	139	28	504	135

Audit Reports issued during 2013/14 which had a “Limited Assurance” Audit Opinion

E&R 1314 – Street Lighting – June 2013. The key concerns raised related to the maintenance of the inventory of street lighting and failure to check that charges for electricity use were up-to-date and accurate. Recommendations have been made and agreed to rectify the situation. A subsequent follow up has confirmed that the area now has a reasonable assurance level.

E&R 1318 – Cleaning Service follow up – July 2013. This was a follow up audit to an initial review carried out following a Whistleblowing allegation. The original allegation was that the Cleaning Service’s assets and resources were being mis-used. Whilst the allegation was not substantiated, a number of weaknesses in records and processes were identified. This follow up identified that insufficient progress had been made in implementing the agreed recommendations and the area was reported to the Audit Committee. A subsequent follow up has confirmed that the area now has a reasonable assurance level.

E&R 1319 – Corporate Procurement – August 2013. The Authority does not currently have an agreed procurement strategy. The old strategy, which covered the period from 2010 to 2012, has not yet been replaced. A number of aspects from the old strategy had not been implemented, for example establishing a Procurement Board and setting up a Contracts Register. However, it is unclear what will be required under any new strategy. Nineteen recommendations were made to improve procurement and thirteen of these have been agreed. The recommendations that have not been agreed have resulted from the view that the recommendations will be inappropriate when the new strategy is in place.

E&R 1404 – Imprest Accounts – August 2013. This review was carried out following the investigation of cash shortfalls in two Imprest accounts, which were subsequently referred to the Police for investigation. The review identified that there was a failure to take effective action in cases where accounts are overdrawn, out of balance or not being used. Seven recommendations have been made, and agreed, to improve the level of control.

CC 1302 – Business Continuity – May 2013. Although a strong framework for managing business continuity was in place, the majority of departmental business continuity plans were incomplete at the time of audit. Seven recommendations have been made and agreed to improve business continuity.

PPCS 1301 – Grant Aid. Issues were identified over the monitoring of the budget and confirmation of information supplied by applicants for grants. A range of recommendations were made, and agreed, to address the weaknesses.

School budget share reports. Two schools had a limited assurance audit opinion. A range of weaknesses were identified. Some of the key areas of concern were over ordering for goods and services, correct use of tendering and quotations and over the management of the school bank account.

APPENDIX 4

Quality Assurance Improvement Plan

Nottinghamshire County Council Internal Audit Service

Progress as at 31 May 2014

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at May 2014
1.	Chief Audit Executive (CAE) should have direct and unrestricted access to senior management and the Board	Access to the Board is not set out in the Internal Audit Charter	Update Charter	Head of Internal Audit	June 2014	Charter updated to include this requirement
2.	CAE should report to level of corporate management team	CAE reports to Service Director	Explain as part of Annual Report	Head of Internal Audit	June 2014	Explained in Annual Report
3.	Reporting and management arrangements in place to preserve the CAE's independence and objectivity	Formal arrangements not in place	Amend Head of Internal Audit's job description to include arrangements for raising concerns	Service Director for Finance and Procurement	June 2014	Job Description updated
4.	The Board approves the internal audit budget and resource plan	The Board does not approve the budget. This is a responsibility of Full Council	Explain arrangements as part of Annual Report	Head of Internal Audit	June 2014	Explained in Annual Report
5.	The Board approves decisions relating to the appointment and removal of the CAE	This responsibility is fulfilled by the Service Director under the Constitution.	Explain arrangements as part of Annual Report	Head of Internal Audit	June 2014	Explained in Annual Report
6.	The Chief Executive should contribute to the performance appraisal of the CAE	No formal contribution from the Chief Executive	Include in future performance appraisal	Service Director for Finance and Procurement	December 2014	Still outstanding

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at May 2014
7.	Feedback should be sought from the Chair of the Audit Committee for the CAE's performance appraisal	No formal contribution from the Chair	Include in future performance appraisal	Service Director for Finance and Procurement	December 2014	Still outstanding
9.	The results of the QAIP should be reported to the Board	Not previously reported	Report to Board	Head of Internal Audit	March 2014	Reported in March 2014
10.	The risk-based plan should set out the approach to using other sources of assurance and any work that may be required to place reliance upon those sources	Not formally set out in the risk-based plan	Include section in risk-based plan to cover how sources of assurance are used	Head of Internal Audit	June 2014	Included in the Audit Plan for 2014/15
11.	The CAE should carry out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance	Not formally developed	Develop assurance mapping for future planning	Head of Internal Audit	March 2015	Still outstanding
12.	Engagement results released outside the organisation should include limitations on distribution and use of the results	No caveat is placed on results released outside the organisation	A caveat will be developed to set out the limitations on use of the results	Head of Internal Audit	Immediate	A caveat has been developed to be used when required.
13.	Progress against the QAIP should be set out in the CAE's Annual Report	First year of the QAIP	The Annual Report will include a section on progress against the QAIP	Head of Internal Audit	June 2014	Reported as part of the Annual Report.

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT**DRAFT ANNUAL GOVERNANCE STATEMENT – 2013/14****Purpose of the Report**

1. To inform Members of the proposed Annual Governance Statement 2013/14 and to invite Members to consider and approve the Statement prior to its accompanying the Statement of Accounts 2013/14.

Information and Advice

2. The Accounts and Audit (England) Regulations 2011 require the Authority to review the effectiveness of its system of internal control and publish an annual governance statement, prepared in accordance with proper practices in relation to internal control.
3. Using guidance developed by the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives, an Annual Governance Statement has been produced and is attached. It has been compiled by a small corporate group which has considered the governance arrangements in place.
4. As the Statement covers corporate governance and risk management issues, it needs to be referred to Full Council which will be done as part of the approval process for the Statement of Accounts 2013/14.

Other Options Considered

5. The requirement to publish an annual governance statement is set out in the Accounts and Audit Regulations 2011. No other options are available.

Reason/s for Recommendation/s

6. To set out how the Authority has met its' governance responsibilities for 2013/14.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That the Committee endorses the Annual Governance Statement 2013/14 and makes any comments or recommendations which it considers ought to be included in the report which is required to be taken to the next appropriate Council meeting, to accompany the Statement of Accounts 2013/14.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:

John Bailey
Head of Internal Audit Tel 0115 977 2226

Constitutional Comments (KK 14/5/14)

8. The proposal in the report is within the remit of the Audit Committee.

Financial Comments (JMB 2/5/14)

9. The Statement is required to demonstrate the Authority has a sound system of governance and internal control in place. This is important for the overall control of the Authority's finances as well as other areas of its operation. However, it has no direct financial implications.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972:

None.

Electoral Division(s) and Member(s) Affected

All

NOTTINGHAMSHIRE COUNTY COUNCIL
ANNUAL GOVERNANCE STATEMENT 2013/14

1. SCOPE OF RESPONSIBILITY

Nottinghamshire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. Public money must be safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Localism Act 2011 has, among other things, established a general power of competence for local authorities.

In discharging this overall responsibility, the County Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including the arrangements for the management of risk.

This statement meets the requirements of regulation 4 of the Accounts and Audit Regulations (England) 2011 in relation to the publication of an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the culture, values and duties of the Authority, supported by the systems and processes put in place to provide assurance that the culture, values and duties are complied with in practice. The Authority uses this framework to direct and control its work and ensure that it engages with, leads, and accounts to the community it serves. The framework enables the Authority to provide assurance over the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services within the existing legal framework.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the County Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

The Authority's governance framework comprises many systems and processes including the arrangements for:-

a) Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and services users.

The Council has recently agreed a new Strategic Plan for the period from 2014 to 2018. The Plan:-

- Provides a clear statement of the Authority's vision, priorities and values, together with a commitment to treat people fairly, provide value for money and to work together with our partners and residents.
- Enables agreed political objectives and statutory requirements to drive the Authority's activities.
- Enables the communication of the Authority's priorities to the community of Nottinghamshire, partner organisations and staff.
- Provides a broad framework of objectives and performance indicators, to ensure effective performance management.

The performance indicators used to monitor its delivery and the key actions undertaken to deliver the priorities are reviewed and refreshed each year to ensure they remain achievable and appropriate.

Each year the Authority approves the annual budget and capital programme which includes an update of the Medium Term Financial Strategy. The Medium Term Financial Strategy is the financial plan which underpins the Strategic Plan.

b) Reviewing the Authority's vision and its implications for the Authority's governance arrangements

The Strategic Plan provides the basis for future corporate and service planning over the period 2014 to 2018. Progress on the Authority's achievements is assessed by the monitoring of agreed key actions and meeting performance indicator targets. Progress across the whole plan is reported quarterly to the Corporate Leadership Team to enable performance to be managed. The Corporate Leadership Team also review performance risks on a monthly basis. The Authority has developed a strategic management framework which sets out in detail the individual factors that are required to manage performance and how they work together in the Authority. The framework has been developed and approved by the Corporate Leadership Team and reported to Policy Committee and a supporting Annual Delivery Plan was approved on 2nd April 2014.

- c) **Measuring the quality of services for users, ensuring that they are delivered in accordance with the Authority's objectives and ensuring that they represent the best use of resources.**

The Authority carried out extensive budget consultations in preparing the 2014/15 budget. A Citizens Panel, 'Nottinghamshire Listens', made up of approximately 6,000 people is in place and has been used to engage with citizens throughout the County on a wide range of issues. Progress towards delivering the Strategic Plan's priorities and objectives is monitored quarterly and reported to Policy Committee.

- d) **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.**

The Head of Paid Service is responsible for reporting to Full Council on the manner in which the discharge of the Council's functions is co-ordinated, the number and grade of officers required for the discharge of functions and the organisation of officers.

The Monitoring Officer is responsible for maintaining the Constitution, ensuring it is available for inspection and making minor changes as a result of any restructuring. The Monitoring Officer is also responsible for ensuring the lawfulness and fairness of decision making; this includes responsibility, after consulting with the Head of Paid Service and Chief Finance Officer, to report to Full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration. The Monitoring Officer is responsible for contributing to the promotion and maintenance of high standards of conduct.

The Constitution sets out how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. There was a significant change in the Authority's constitution in 2012, with a move to a committee system of decision making. The Authority established service committees for each of the key areas of service, in addition to an overarching Policy Committee and Full Council. The Constitution is under continuous review and a number of changes have been made during 2013/14 to keep it relevant; the most recent changes became effective in March 2014.

- e) **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for Members and staff.**

Codes of Conduct, for both Members and staff, are contained within the Constitution together with the Code on Member and Officer Relationships. The Constitution is posted on the Council's website. The Authority's Standards Committee was discontinued as part of the new committee system, with the functions of the Committee passing to other committees. In January 2014, a new Conduct Committee was approved by Full Council with terms of reference and a Procedure for

Dealing with Conduct Allegations agreed in February 2014. The Procedure commits the Council to promoting and maintaining high standards of conduct by all Councillors and Co-opted Members.

- f) **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks.**

The Monitoring Officer is responsible for keeping the Constitution under review and reporting any proposed amendments to Council. The most recent review was in March 2014. The Authority's Risk Register is reviewed at each of the five meetings a year of the Risk, Safety and Emergency Management Board to determine whether additional steps are required to mitigate key risks.

- g) **Ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of The Chief Financial Officer in Local Government**

The Statement sets out the five principles that need to be met, to ensure that the Chief Financial Officer can carry out the role effectively. The principles are that the Chief Financial Officer:-

- Is a key member of the Leadership Team
- Must be actively involved in all material business decisions
- Must lead the promotion and delivery of good financial management
- Must lead and direct a finance function that is resourced to be fit for purpose
- Must be professionally qualified and suitably experienced.

The Chief Financial Officer for the Authority is the Service Director – Finance and Procurement. This post reports to the Corporate Director for Environment and Resources who is a member of the Leadership Team. The Chief Financial Officer is also a member of the Leadership Team, ensuring involvement in material business decisions. The Authority have set up the Business Support Centre which manages financial transactions on behalf of the Authority, including payroll, pensions and income transactions. As the Business Support Centre does not report to the Chief Financial Officer, controls have been established to ensure that the Chief Financial Officer can secure the promotion and delivery of good financial management in these areas. The Chief Financial Officer is professionally qualified and has experience from a range of organisations. A regular report on the Council's financial position is reported to the Finance and Property Committee.

- h) **Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities.**

A self-assessment of compliance with the new Public Sector Internal Audit Standards was completed during 2013/14 and the results reported to the Audit Committee. A Quality Assurance and Improvement Programme has been agreed to address the identified issues. The core functions relate to the review of Internal and External Audit work, the effectiveness of the Authority's control environment, the review of the annual assurance statement and the review of the financial statements. These functions are covered by the Audit Committee.

i) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

The Monitoring Officer is responsible, after consultation, for reporting to the relevant committee or Council if it is considered that any proposal, decision or omission would give rise to unlawfulness. In addition, Constitutional Comments are contained in reports to Council and Committees to advise on compliance with the policy framework and the Constitution. The Service Director - Finance and Procurement also has a responsibility to highlight any proposal, decision or course of action which will involve any unlawful expenditure. The External Auditors also carry out an external audit of the Council's accounts.

j) Whistle-blowing and receiving and investigating complaints from the public.

The Authority's Whistleblowing Policy was reviewed by Policy Committee in December 2013 and revised to reflect changes in legislation. The Authority's complaints procedure is well established and is monitored by the Policy Committee. The Policy Committee receives an annual report on the discharge of the Authority's duties under the Whistleblowing Policy.

k) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.

During 2013/14 the member development programme continued to respond to changing national and local policy. Elections were held in May 2013 resulting in a number of new Members being elected. A comprehensive induction programme was completed to provide information and briefings on a range of issues to new and returning Members. All officers, including senior officers, are subject to annual Performance and Development Reviews. These reviews specifically identify and monitor development and training needs in relation to the individual employee's role. The Performance and Development Reviews also sets out a detailed Competency Framework which sets out the observable skill levels and behaviours required of every employee at each tier of the organisation.

l) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

Communication channels are currently being developed to provide more on-line services, whilst reducing the costs of printing and delivering newspapers. The Authority's new resident magazine, County Life, was produced in April 2014. The Budget Challenge consultation was launched in November 2013. Over 38,000 responses were received and members listened carefully to the views expressed in the consultation and have sought to ensure that, wherever possible, resources are aligned to strategic priorities with a number of proposals being amended as a result. The Authority has a digital development plan with communication channels including website, Twitter and Facebook.

m) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the Authority's overall governance arrangements.

The Authority works in partnership with a number of bodies. Formal, joint governance arrangements are in full compliance with public administration rules.

4. REVIEW OF EFFECTIVENESS

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority (Head of Paid Service, Monitoring Officer and Chief Financial Officer) who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the External Auditor and other review agencies and inspectorates.

Throughout 2013/14, the Authority has maintained and reviewed the effectiveness of the governance framework. In particular:-

- a) The County Council has received and considered a number of reports, including:-
 - Statement of Accounts 2012/13
 - Treasury Management
 - Strategic Plan for 2014/2018
 - Conduct Issues
 - Budget Report 2014/15 and Medium Term Financial Strategy 2014/15 to 2017/18

- Pay Policy Statement for 2014/15
 - Amendments to the Constitution
- b) Policy Committee has considered and approved a number of reports in its role as the committee responsible for policy development and approval, including:-
- Freedom of Information Act and Environmental Regulations update
 - Annual Strategic Performance Report 2012/13
 - Strategic Management Framework
 - Overview of the Improvement Programme
 - Budget Consultation for 2014/15
 - Outcomes from the Complaints Process 2012/13
 - Information Management and Data Quality Policy
 - Findings from the Annual Residents Satisfaction Survey 2013
- c) The Audit Committee have considered a wide variety of issues including:-
- Internal Audit Annual Plan 2013/14
 - Statement of Accounts 2012/13
 - Annual Governance Statement
 - Public Sector Internal Audit Standards and Audit Charter
 - Internal Audit Annual Report
 - ISA260 Audit Commission Annual Governance Report 2012/13
 - KPMG External Audit Plan 2013/14
- d) Internal Audit has undertaken planned reviews of internal control procedures across all departments and across a range of functions in the Authority. Each review contains an opinion on the internal controls in place and Internal Audit's overall opinion of the Authority's system of internal control, based on the audits completed in 2013/14, is that it is good.
- e) External Audit's report to those charged with governance (Audit Committee) for 2012/13 stated that the Auditor issued an unqualified audit opinion on the County Council's 2012/13 accounts. No material audit adjustments within the financial statements were identified. The Authority's organisational and IT controls environment is effective overall, and controls over the key financial systems are sound. The Auditor also concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

5. SIGNIFICANT GOVERNANCE ISSUES

The Authority continued to face difficult financial challenges in 2013/14 as it sought to manage budget reductions and increasing demand for some key

services. The Authority faces further reductions in Government grant funding, coupled with rising demand for services, driven by an ageing population and the focus on safeguarding children. The Authority has significant recent history of achieving this scale of cost reduction and service re-alignment and is developing plans to address the challenges.

Other key governance issues that need to be addressed against this background include:-

- a) The Council will transform into a smaller organisation with a greater diversity of delivery arrangements with the potential for greater risk
- b) Changes to national policy such as the Care Bill, which comes into effect in 2015/16
- c) Changes to regulatory frameworks such as Ofsted and the Care Quality Commission
- d) Residents expectations that, in a digital era, public services will be provided differently, keeping pace with advances in mobile technology and social media
- e) The new Strategic Management Framework will become embedded during 2014 and will be the key to effective performance management.

In response to these challenges work is underway to develop a strategic approach to transform the Council. The approach was outlined in a report to Policy Committee in May 2014 – ***Redefining Your Council*** – recognising that services cannot be delivered in the same way or at the same level as in the past.

The Audit Committee reviewed the governance framework detailed in this statement at their meeting on 11 June 2014. We are aware of the steps that are being and will be taken to address the above significant governance issues and we are satisfied that these are appropriate. We will monitor their implementation during the course of 2014/15.

Signed:.....

LEADER

Signed:.....

CHIEF EXECUTIVE

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT**INTERNAL AUDIT PLAN – 2014/15****Purpose of the Report**

1. To inform Members of the proposed Internal Audit Plan for the 2014/15 financial year.

Information and Advice

2. Internal Audit is defined 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. The Public Sector Internal Audit Standards require the chief audit executive to establish a risk based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. As part of the planning process, account has been taken of external sources of assurance, including work by Ofsted, the Care Quality Commission and external audit. Where audits have been planned, pre-audit work will also include discussion with the relevant managers over sources of assurance that can be relied upon to prevent duplication.
4. The Authority's Strategic Plan 2014-2018 sets out our promise to the people of Nottinghamshire; our priorities for the next four years; and how we aim to support the people of our county to be aspirational, independent and to share with us responsibility for the future. The vision for Nottinghamshire is to be a better place to live, work and visit.

The Authority's priorities are:-

Supporting safe and thriving communities
Protecting the environment
Supporting economic growth and employment
Providing care and promoting health
Investing in our future

5. The attached Audit Plan sets out the proposed coverage of the Authority's systems and procedures for the period 2014/15. The Plan represents the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control.
6. Discussions about the content of the Audit Plan have been held during February and March at departmental leadership teams. Following on from this, more detailed one-to-one discussions have taken place with Service Directors. The Audit Plan is implemented flexibly, and will continue to change to ensure that any emerging priorities during the year are addressed.
7. The role of Internal Audit is to provide management with an objective assessment of whether its systems and controls are working properly. It provides an independent and continuous appraisal of the Authority's activities and in particular focuses on the internal controls established by the organisation's managers. The Section's aim is to complete the programme of planned work in order to express an overall view on the adequacy and effectiveness of the Authority's internal control systems.
8. This work is critical in enabling the County Council's External Auditors to form a view on the overall adequacy of the Council's financial controls, which in turn supports their assessment of whether or not the County Council's annual statement of accounts gives a "true and fair view," and is also a key contributory factor in the preparation of the Council's Annual Governance Statement.
9. The Plan has been compiled in accordance with the Public Sector Internal Audit Standards, which came into force from 1st April 2013. A detailed breakdown of the plan is shown in the attached appendices, and is summarised in the table below.

Table 1: Summary of Internal Audit Plan for 2014/15

Department	Days	Number of Audits			
		High Risk	Med Risk	Low Risk	Total
Cross-cutting	295	8	1	-	9
Children, Families and Cultural Services (excluding schools)	185	-	11	2	13
Schools	410	-	45	-	45
Adult Social Care, Health and Public Protection	233	2	12	2	16
Environment and Resources	419	13	15	2	30
Policy, Planning and Corporate Services	55	1	3	-	4

Public Health	30	-	2	-	2
Contingency	100				
Total County Council	1,727	24	89	6	119
External Clients (Work for Fire, Academies and Gedling BC)	196				
Overall Total	1,923				

10. As can be seen from the above, a total of 1,923 days are planned for 2014/15 of which 1,727 (90%) will be spent on the Authority's systems and procedures. The remaining 196 days will be spent on external contracts providing an internal audit service to Notts Fire and Rescue Service, work for Gedling Borough Council and work in academy schools. External contracts help the section maintain high quality services and costs are fully recovered.

11. The Audit Plan shows a reduction in terms of the number of days to that in 2013/14, following a restructure to provide fewer, more senior auditor staff. This reflects the need to provide more consultancy-style work and to audit increasingly complex areas. There is a change to focus on fewer, more complex, cross-cutting areas. Table 2 sets out planned coverage in previous years, as an indicator of the changing plans over the years.

Table 2: Changes in the Planned Audit Days for the Council, Planned Jobs, Council Gross Turnover and Internal Audit cost per £ million turnover between 2008/09 and 2014/15

Year	Planned days	Planned audits	Council Gross turnover (£million)	Audit Cost per £m expenditure (£)
2008/09	2,288	191	1,201	561
2009/10	2,233	169	1,240	510
2010/11	2,196	157	1,253	448
2011/12	1,955	136	1,283	323
2012/13	1,923	147	1,215	313
2013/14	1,929	139	1,093	329
2014/15	1,727	119	1,093	334

12. Progress against the plan will be reported to the Council's Audit Committee and the Corporate Leadership Team on a regular basis.

Other Options Considered

13. This report is for information and noting only.

Reason/s for Recommendation/s

14. To provide information to Members on the Internal Audit Plan of work for 2014/15.

Statutory and Policy Implications

15. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

1) That the Internal Audit Plan 2014/15 be noted.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:

John Bailey
Head of Internal Audit Tel: 01159772226

Constitutional Comments

16. Because this report is for noting only, no Constitutional Comments are required.

Financial Comments (JMB 2/5/14)

17. The net budget for the provision of Internal Audit to the County Council for 2014/15 is £366k. This comprises gross expenditure of £539k and income of £173k.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972:

None.

Electoral Division(s) and Member(s) Affected

All

Appendix

Cross cutting areas (i.e. across departments)

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Service Planning and Performance Management	High	30				To review the effectiveness of the new strategic management framework
Information Governance	High	30				Review of policy framework, risk assessment, governance culture, physical security and response to incidents. To include specific coverage of ICT mobilisation risks
Counter Fraud and Corruption	High			100		Develop and implement a strengthened counter fraud culture. Use detection techniques to identify potential fraud. Investigate suspected frauds and irregularities
Commissioning	High	30				Assess the effectiveness with which key services are commissioned across the council

LEAN+ Service Reviews	Medium		15			Provide assistance with reviews to ensure cost-effective controls in place
Budgetary Control	High	30				Review of the revised Business Management System process for budgetary control and forecasting
Procurement	High	5	10			Provide advice to the P2P project and complete the 13/14 follow up
PCI (Payment Card Industry) Compliance	High	15				Continuing contribution to working group and targeted compliance tests at selected sites
Agency staff and consultants	High	30				Review effectiveness of management information to inform an enforce compliance with policy for engagement of agency staff and consultants
Total days	295	170	25	100	-	

Children Families and Cultural Services

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Children's Social Care						
Children's Disability Service	Medium	5				Completion of review commenced in 2013/14
Secure Accommodation	Medium	10				Completion of review commenced in 2013/14
Fostering and Adoption allowances	Medium	15				Assurance over control environment
In-house children's residential services	Medium	15				Assurance over control environment
Education Standards and Inclusion						

Special Educational Needs and Disability funding	Medium	2				Assurance over control environment
SEND independent special schools	Medium	15				Assurance over control environment
Behaviour Service	Medium	15				Reviews of Learning Centres
School and College transport	Medium	15				Assurance on expenditure and budgetary control
Youth, Families and Culture						
National Watersports Centre - partnership	Medium	15				Review of contract management and compliance
Cultural / Enrichment Services	Medium	15				Review of School Swimming
Early Years and Early Intervention	Medium	15				Children's Centres contract management and compliance
Other Work						
National award for SENCOs grant	Low				3	Audit grant claim
Youth Club funds	Low				5	To be determined as required

Provision of advice and liaison with department			30			As required
Schools						
Audit of 45 schools	Medium	410				Review range of factors relating to School Budget Share
Total days	595	557	30		8	

Adult Social Care, Health and Public Protection

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
ASCH Support						
Framework data quality	High	15				Review input / output controls and data reporting
Continuing Healthcare	Medium	15				Review control environment and financial control
Client Finances – deputyships, investment accounts	Medium	15				Review control

Safeguarding Vulnerable Adults	High	7				environment and financial control Complete review from 2013/14
Younger Adults						
Supported Living	Medium	15				Review control environment and financial control
Care Assessments and Support Plans	Medium	15				Review control environment and financial control
Supported Employment – County Enterprise Foods	Medium	15				Review control environment and financial control
Supported Employment – County Horticulture	Medium	15				Review control environment and financial control
Older Adults						
Extra Care	Medium	15				Review implementation of strategy and contract compliance
Care Assessments and Support Plans	Medium	15				Review control environment and financial control
Care Home Providers	Medium	15				Review control environment and financial

Care Home Income	Medium	10				control Complete 2013/14 audit
Promoting Independence and Public Protection						
Emergency Planning	Medium	15				Review of risk and Internal Control
Market Management – safeguarding and compliance	Medium	15				Review of risk and Internal Control
Other Work						
Scambusters – grant certification	Low				3	In progress
Operation Spinaker – grant certification	Low				3	To be determined as appropriate
Provision of advice and liaison with department	N/A		30			Provision of ongoing advice on internal control / systems
Total days	233	197	30		6	

Environment and Resources

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Highways Highway Capital						

Schemes	Medium	10				Brought forward from 2013/14
Highway Maintenance	High	20				Operation of new framework contract
Highway Services	High	15				Review selection of highway services operations
Finance						
VAT and tax planning	Medium	10				Completion of 2013/14 audit
Treasury and Pension Fund Management	High	20				Review compliance with CIPFA / SOLACE guidance on governance
Transport, Property and Environment						
Fleet Management, Maintenance and Operations	Medium	20				Systems review of centralised arrangements and trading accounts
Bus Stations	Medium	15				Review of income collection
Bus Service Operators grant	Low				1	Confirm grant conditions met and sign claim
Building maintenance	Medium	5				Brought forward 2013/14
Property Strategy and Estate management	Medium	10				Follow up recommendations from 2013/14 review
Building Operations Group	High	15				Review of selected areas of Building Operations

Waste Income	Medium	20				Review of income received from Enviro Energy agreement
Energy and Carbon Management	Low				3	Required audit of CRC return
Human Resources and Customer Services Learning, Development and Workforce Planning	Medium	20				Council-wide approaches to workforce planning, EPDRs and procurement of training
Customer Services Centre	High	15				Review processing of income
Payroll	High			20		Analytical review of Payroll data in targeted areas to provide assurance that counter-fraud measures are operating effectively
Schools Payroll	High		10			Revised set-up for schools' access and monitoring controls in BMS payroll
Pensions	High		10			Advisory input to the development of re-engineered process maps for the administration of pensions

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
ICT – Infrastructure ICT Strategy and Operating Model	High	20				Review ICT Strategy in meeting organisational objectives; maintenance of policies and monitoring of performance to identify opportunities to improve As agreed with ICT services
Emerging Risks	High		15			
Active Directory	High	15				Maintenance / support, logical security, user security, data management, system availability, management trail, business continuity
Internet Controls	High	15				Ownership and control of internet/intranet content; access control; email filtering and monitoring usage
Service Desk Management Access Controls	Medium	15				Review support arrangements to confirm they enable delivery of agreed service levels

Change and Release Management	Medium	20				Confirm procedures are approved, complied with and facilitate operational service delivery
ICT – Applications						
Public Sector Network (PSN)	Medium	15				Examine arrangements for compliance with PSN requirements
Civica Pensions System	High			10		Advice on implementation of replacement pensions administration system
Universal Manager						
Lagan (Customer Relationship Management)	Medium	10				Review of maintenance / support, logical security, user security, data management, system availability, management trail, business continuity
Frontline						
Abacus	Medium	15				Review of maintenance / support, logical security, user security, data management, system availability, management trail, business continuity
BEDS	Medium	10				Review of maintenance / support, logical security, user security, data management, system

Capita One (Education Management System)	Medium	10				availability, management trail, business continuity Review of maintenance / support, logical security, user security, data management, system availability, management trail, business continuity
Input to Projects			10			Provide advice on selected projects as agreed with ICT management
Total days	419	340	55	20	4	

Policy Planning and Corporate Services

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Members Allowances and Divisional Funds	High	10				Completion of work from 2013/14
Council elections	Medium	10				Review expenditure on administration of County Council elections
Broadband Project Grant	Medium				20	Certification of grant monies to meet BDUK regulations
Economic	Medium	15				Review of innovation

Development						centres and economic development initiatives
Total days	55	35			20	

Public Health

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Public Health Grant	Medium	15				Assurance over grant spend and volume
Performance monitoring and management	Medium	15				Assurance effectiveness over
Public Health Total		30				
Contingency				100		
Grand Total days	1,727	1,329	140	220	38	

Appendix

Cross cutting areas (i.e. across departments)

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Service Planning and Performance Management	High	30				To review the effectiveness of the new strategic management framework
Information Governance	High	30				Review of policy framework, risk assessment, governance culture, physical security and response to incidents. To include specific coverage of ICT mobilisation risks
Counter Fraud and Corruption	High			100		Develop and implement a strengthened counter fraud culture. Use detection techniques to identify potential fraud. Investigate suspected frauds and irregularities
Commissioning	High	30				Assess the effectiveness with which key services are commissioned across the council

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LEAN+ Service Reviews	Medium		15			Provide assistance with reviews to ensure cost-effective controls in place
Budgetary Control	High	30				Review of the revised Business Management System process for budgetary control and forecasting
Procurement	High	5	10			Provide advice to the P2P project and complete the 13/14 follow up
PCI (Payment Card Industry) Compliance	High	15				Continuing contribution to working group and targeted compliance tests at selected sites
Agency staff and consultants	High	30				Review effectiveness of management information to inform an enforce compliance with policy for engagement of agency staff and consultants
Total days	295	170	25	100	-	

Children Families and Cultural Services

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Children's Social Care						
Children's Disability Service	Medium	5				Completion of review commenced in 2013/14
Secure Accommodation	Medium	10				Completion of review commenced in 2013/14
Fostering and Adoption allowances	Medium	15				Assurance over control environment
In-house children's residential services	Medium	15				Assurance over control environment
Education Standards and Inclusion						
Special Educational Needs and Disability funding	Medium	2				Assurance over control environment
SEND independent	Medium	15				Assurance over control

special schools						environment
Behaviour Service	Medium	15				Reviews of Learning Centres
School and College transport	Medium	15				Assurance on expenditure and budgetary control
Youth, Families and Culture						
National Watersports Centre - partnership	Medium	15				Review of contract management and compliance
Cultural / Enrichment Services	Medium	15				Review of School Swimming
Early Years and Early Intervention	Medium	15				Children's Centres contract management and compliance
Other Work						
National award for SENCOs grant	Low				3	Audit grant claim
Youth Club funds	Low				5	To be determined as required
Provision of advice and liaison with department			30			As required
Schools						
Audit of 45 schools	Medium	410				Review range of factors

						relating to School Budget Share
Total days	595	557	30		8	

Adult Social Care, Health and Public Protection

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
ASCH Support						
Framework data quality	High	15				Review input / output controls and data reporting
Continuing Healthcare	Medium	15				Review control environment and financial control
Client Finances – deputyships, investment accounts	Medium	15				Review control environment and financial control
Safeguarding Vulnerable Adults	High	7				Complete review from 2013/14
Younger Adults						Review control

Supported Living	Medium	15				environment and financial control
Care Assessments and Support Plans	Medium	15				Review control environment and financial control
Supported Employment – County Enterprise Foods	Medium	15				Review control environment and financial control
Supported Employment – County Horticulture	Medium	15				Review control environment and financial control
Older Adults						
Extra Care	Medium	15				Review implementation of strategy and contract compliance
Care Assessments and Support Plans	Medium	15				Review control environment and financial control
Care Home Providers	Medium	15				Review control environment and financial control
Care Home Income	Medium	10				Complete 2013/14 audit
Promoting Independence and Public Protection						
Emergency Planning	Medium	15				Review of risk and Internal Control

Market Management – safeguarding and compliance	Medium	15				Review of risk and Internal Control
Other Work						
Scambusters – grant certification	Low				3	In progress
Operation Spinaker – grant certification	Low				3	To be determined as appropriate
Provision of advice and liaison with department	N/A		30			Provision of ongoing advice on internal control / systems
Total days	233	197	30		6	

Environment and Resources

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Highways						
Highway Capital Schemes	Medium	10				Brought forward from 2013/14
Highway Maintenance	High	20				Operation of new framework contract
Highway Services	High	15				Review selection of highway services operations
Finance						

VAT and tax planning	Medium	10				Completion of 2013/14 audit
Treasury and Pension Fund Management	High	20				Review compliance with CIPFA / SOLACE guidance on governance
Transport, Property and Environment						
Fleet Management, Maintenance and Operations	Medium	20				Systems review of centralised arrangements and trading accounts
Bus Stations	Medium	15				Review of income collection
Bus Service Operators grant	Low				1	Confirm grant conditions met and sign claim
Building maintenance	Medium	5				Brought forward 2013/14
Property Strategy and Estate management	Medium	10				Follow up recommendations from 2013/14 review
Building Operations Group	High	15				Review of selected areas of Building Operations
Waste Income	Medium	20				Review of income received from Enviro Energy agreement
Energy and Carbon	Low				3	Required audit of CRC

Management						return
Human Resources and Services Learning, Development and Workforce Planning	Medium	20				Council-wide approaches to workforce planning, EPDRs and procurement of training
Customer Services Centre	High	15				Review processing of income
Payroll	High			20		Analytical review of Payroll data in targeted areas to provide assurance that counter-fraud measures are operating effectively
Schools Payroll	High		10			Revised set-up for schools' access and monitoring controls in BMS payroll
Pensions	High		10			Advisory input to the development of re-engineered process maps for the administration of pensions

Area for audit	Risk assessment	Days planned	Likely scope
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		Assurance	Consultancy	Counter Fraud	Certification	
ICT – Infrastructure ICT Strategy and Operating Model	High	20	15			Review ICT Strategy in meeting organisational objectives; maintenance of policies and monitoring of performance to identify opportunities to improve As agreed with ICT services
Emerging Risks	High					
Active Directory	High	15				Maintenance / support, logical security, user security, data management, system availability, management trail, business continuity
Internet Controls	High	15				Ownership and control of internet/intranet content; access control; email filtering and monitoring usage
Service Desk Management Access Controls	Medium	15				Review support arrangements to confirm they enable delivery of agreed service levels
Change and Release	Medium	20				Confirm procedures are

Management						approved, complied with and facilitate operational service delivery
ICT – Applications						
Public Sector Network (PSN)	Medium	15	10			Examine arrangements for compliance with PSN requirements
Civica Universal Pensions Manager System	High					Advice on implementation of replacement pensions administration system
Lagan Frontline (Customer Relationship Management)	Medium	10				Review of maintenance / support, logical security, user security, data management, system availability, management trail, business continuity
Abacus	Medium	15				Review of maintenance / support, logical security, user security, data management, system availability, management trail, business continuity
BEDS	Medium	10				Review of maintenance / support, logical security, user security, data

Capita One (Education Management System)	Medium	10				management, system availability, management trail, business continuity Review of maintenance / support, logical security, user security, data management, system availability, management trail, business continuity
Input to Projects			10			Provide advice on selected projects as agreed with ICT management
Total days	419	340	55	20	4	

Policy Planning and Corporate Services

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Members Allowances and Divisional Funds	High	10				Completion of work from 2013/14
Council elections	Medium	10				Review expenditure on administration of County Council elections
Broadband Project Grant	Medium				20	Certification of grant monies to meet BDUK regulations

Economic Development	Medium	15				Review of innovation centres and economic development initiatives
Total days	55	35			20	

Public Health

Area for audit	Risk assessment	Days planned				Likely scope
		Assurance	Consultancy	Counter Fraud	Certification	
Public Health Grant	Medium	15				Assurance over grant spend and volume
Performance monitoring and management	Medium	15				Assurance effectiveness over
Public Health Total		30				
Contingency				100		
Grand Total days	1,727	1,329	140	220	38	

**REPORT OF CORPORATE DIRECTOR, POLICY, PLANNING AND
CORPORATE SERVICES****WORK PROGRAMME****Purpose of the Report**

1. To consider the Committee's work programme for 2014.

Information and Advice

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.
3. The attached work programme has been drafted in consultation with the Chairman and Vice-Chairman, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.
4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights,

the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the committee's work programme be noted, and consideration be given to any changes which the committee wishes to make.

Jayne Francis-Ward

Corporate Director, Policy, Planning and Corporate Services

For any enquiries about this report please contact: Sarah Ashton x 73962

Constitutional Comments (HD)

8. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (PS)

9. There are no direct financial implications arising from the contents of this report. Any future reports to Committee on operational activities and officer working groups, will contain relevant financial information and comments.

Background Papers

None.

Electoral Division(s) and Member(s) Affected

All

AUDIT COMMITTEE - WORK PROGRAMME

<u>Report Title</u>	<u>Brief summary of agenda item</u>	<u>For Decision or Information</u>	<u>Lead Officer</u>	<u>Report Author</u>
3 September 2014				
External Audit Annual Governance Reports	To receive for information, and comment, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval	Information	Nigel Stevenson	Nigel Stevens / External Auditor
Review of the effectiveness of the Audit Committee	To review CIPFA guidance on "best practice" for Audit Committees, assess current practice at the County Council and whether improvements could be made	Decision	Paul Simpson	John Bailey
3 December 2014				
Internal Audit Progress Report for 2014/15	To provide details of internal audit work completed to the end of September 2014	Information	John Bailey	John Bailey
1 April 2015				
Statement of Accounts 2014/15 – Accounting Policies	To outline proposed changes to the accounting policies used for the Authority's Statement of Accounts for 2014/15 for review and approval	Decision	Nigel Stevenson	Nigel Stevens
Internal Audit Plan for 2015/16	Report from the Head of Internal Audit providing details of the planned work for 2015/16	Information	John Bailey	John Bailey
External Audit Plan 2014/15	To provide information on the External Auditors' Audit Plan for their 2014/15 Audit.	Information	Nigel Stevenson	Nigel Stevens External Auditor
Certification of Grants and Returns 2013/14	To provide information on the External Auditors' Annual Report 2013/14 on the certification of Grants and Returns	Information	Nigel Stevenson	Nigel Stevens External Auditor

10 June 2015				
Annual External Audit Fees	To inform Members of proposed external audit fees for 2014/15	Information	Nigel Stevenson	Nigel Stevenson / External Auditor
Mandatory Inquiries	To provide information on the External Auditors' requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit.	Decision	Nigel Stevenson	Nigel Stevenson
Internal Audit Report 2014/15	Report of the Head of Internal Audit providing an internal audit opinion on the Authority's level of internal control during 2014/15	Information	John Bailey	John Bailey
Draft Annual Governance Statement 2014/15	Review and comment on the draft Annual Governance Statement prior to being forwarded on to Full Council to accompany the Statement of Accounts	Decision	John Bailey	John Bailey