Nottinghamshire County Council

Audit Committee

Date: Wednesday, 23 May 2012
Time: 14:00
Venue: County Hall
Address: County Hall, West Bridgford, Nottingham NG2 7QP

AGENDA

Nottinghamshire County Council

minutes

Meeting	AUDIT COMMITTEE
Date	14 March 2012 (commencing at 2.00 pm)

membership
Persons absent are marked with `A'

COUNCILLORS

A Sheila Place (Chair)
Mike Quigley MBE (Vice-Chair) – in the Chair

	Chris Barnfather		Carol Pepper
	Mrs Kay Cutts	A	Darrell Pulk
	Steve Garner		Ken Rigby
A	Richard Jackson		Jason Zadrozny
	Eric Kerry		

OFFICERS IN ATTENDANCE

David Forster	-	Policy, Planning and Corporate Services
John Bailey	)	
Simon Cunnington	)	Environment and Resources Department
Nigel Stevenson	)	

ALSO IN ATTENDANCE

Councillor Reg Adair

Mike Norman	-	Audit Commission
Ian Sadd	-	Audit Commission

MINUTES

The minutes of the last meeting of the Committee held on 30 November 2011, having been circulated, were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

Apologies for absence were received from:-

Councillor Richard Jackson	-	Other County Council Business
Councillor Sheila Place	-	Other County Council Business
Councillor Darrell Pulk	-	Other County Council Business

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

TREASURY MANAGEMENT POLICY STATEMENT AND STRATEGY FOR 2012/13

Mr. Cunnington took members through the report and informed members that in future any changes to the Policy will be highlighted in the report. Two of the changes highlighted were the changes to the Management Strategy, regarding the Long Term ratings and the fact they will be taken into account when investing as well as the short term ratings, and the other regarding the approved lending list whereby institutions with high credit ratings will need to have a minimum credit rating from approved credit agencies.

RESOLVED 2012/001

That the report be noted.

AUDIT COMMISSION – CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT

Mr. M Norman introduced the report and highlighted to members that there are no claims requiring external auditor certification.

RESOLVED 2012/002

That the Certification of Claims and Returns Report 2010/11 be received and noted.

AUDIT COMMISSION - PROGRESS REPORT

Mr. M Norman introduced the report and informed members the Review of Works is currently in progress and if any issues of significance come to light, members will be informed.

He also informed members that the Audit Commission had recently announced KPMG LLP (UK) have been awarded the East Midlands Contract as the External Auditor, however, Authorities will be able to appoint their own Independent Auditors if they wish at the end of the 5 year contract.

RESOLVED 2012/003

That the External Auditor’s report be noted.

FUTURE OF LOCAL AUDIT - CONSULTATION

Mr. Bailey introduced the report to members and informed members that the Council needs to appoint an Independent Auditor Appointment Panel (IAAP) by 2015, however consideration of cross border cooperation on the IAAP will be considered over the next year.

RESOLVED 2012/004

That the report be noted.

AUDIT OF FINANCIAL STATEMENTS 2011/12 – COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

Mr. J Bailey introduced the report

RESOLVED 2012/005

That the report be noted.

The meeting closed at 2.25 pm.

CHAIR

Nottinghamshire County Council

Report to Audit Committee

23 May 2012

Agenda Item: 6

REPORT OF CHIEF EXECUTIVE

TERMS OF REFERENCE

Purpose of the Report

1. To note the Committee's terms of reference.

Information and Advice

2. County Council on 29 March 2012 agreed the following terms of reference for the Audit Committee:-

    1. Responsibility for advising Council on the adequacy of the Council's systems of internal control and overseeing the external auditor's annual audit of the accounts

    2. Responsibility for maintaining an overview of the Council's Financial Regulations and antifraud and anticorruption strategies

Other Options Considered

3. None.

Reason/s for Recommendation/s

4. To inform the committee of its terms of reference.

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 the report be noted.

Mick Burrows
Chief Executive

For any enquiries about this report please contact: David Forster (0115 9773552)

Constitutional Comments

6. As the report is for noting only, no constitutional comments are required.

Financial Comments (PS 2/5/12)

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

Background Papers

County Council Report - 29 March 2012

Electoral Division(s) and Member(s) Affected

All

Nottinghamshire County Council

Report to AUDIT COMMITTEE

23 May 2012

Agenda Item:

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

STATEMENT OF ACCOUNTS 2011/12 – ACCOUNTING POLICIES

Purpose of the Report

1. To allow the Audit Committee to review and approve the proposed accounting policies used in creating the Authority's Statement of Accounts for 2011/12.

Information and Advice

2. The Statement of Accounts includes a section explaining the accounting policies used in producing the main statements for the benefit of the reader. The External Auditors have indicated that these policies should be reviewed and approved by the Audit Committee prior to inclusion in the final Statement of Accounts.

3. The previous year saw major changes to the Authority's accounting policies due to the introduction of International Financial Reporting Standards (IFRS). The accounting policies for 2011/12 have been updated following some minor changes in the Code of Practice on Local Authority Accounting and the need for two new accounting policies.

4. Revisions to the accounting policies are shown in italics where policies have been deleted these are shown with a "strike-through". These changes mainly relate to:

   a. Change of title from the Best Value Code of Practice to the Service Reporting Code of Practice and update to dates
   b. A new accounting policy for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme
   c. A new accounting policy for Heritage Assets following the adoption of *Financial Reporting Standard* (*FRS) 30 Heritage Assets*

Other Options Considered

5. This report is for the approval of statutory required accounting policies.

Reason/s for Recommendations

6. The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires changes to the Authority's accounting policies.

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

8. That Members approve the changes to the Authority's accounting policies.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
Nigel Stevenson
Chief Accountant

Constitutional Comments

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

Financial Comments

10. The impact of implementing these accounting policies will be reflected in the year end management and statement of accounts.

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.

Code of Practice on Local Authority Accounting in the United Kingdom 2011/12

Electoral Division(s) and Member(s) Affected

Not applicable

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL POLICIES

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the ~~Best Value Accounting Code of Practice~~ *Service Reporting Code of Practice 2011/12*, supported by International Financial Reporting Standards (IFRS).

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

2. EXCEPTIONAL ITEMS

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

3. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

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

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

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

4. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance [MRP], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

5. COSTS OF SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA ~~Best Value Accounting Code of Practice (BVACOP)~~ *Service Reporting Code of Practice 2011/12 (SERCOP).* The total absorption costing principle is used – the full cost of overheads and support services are shared between users as follows:

- Office Accommodation – in proportion to floor area occupied
- Other central administrative expenses – allocation of staff time
- Architectural Engineering Services for Capital Programme – recharged to capital using professional scale fees

The following two cost categories are defined in ~~BVACOP~~ *SERCOP* and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on the Cost of Services.

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early, pensions past service cost and impairment losses chargeable on Assets Held for Sale.

6. EMPLOYEE BENEFITS & PENSIONS

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line (or discontinued operations) in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post-Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pensions Scheme, administered by Nottinghamshire County Council

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projections of projected earnings for current employees. In assessing these liabilities at 31 March 2012 for the 2011/12 Statement of Accounts, the actuary made a number of changes in the assumptions underlying the present value of the scheme liabilities. These include a change in the assumed pensions increase from *2.7%* to *2.5%* and inflation. Application of these revised assumptions has resulted in an increase in liabilities measured at today's prices of £240.5 million (£237.3 million LGPS, £3.2 million Teachers).

- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
  - contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

7. REVENUE EXPENDITURE FINANCED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund

Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Capital grants made to other bodies are written off to the appropriate Service revenue account during the financial year because they do not represent value for money to the Authority beyond the end of the financial year. This includes grants made to bodies where the Authority is the accountable body and exercises control over grant distribution.

8. PROPERTY PLANT AND EQUIPMENT

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

Recognition

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

Assets are, however, only recognised when they exceed the de minimus levels for 2011/12 set out below:

Land and Buildings	£10,000
Community Assets	£10,000
Infrastructure	All are included
Under Construction	All are included
Heritage Assets	*£10,000*
All other Assets	£6,000

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- *heritage assets - held at valuation and under certain conditions historical cost (depreciated where appropriate)*

- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

The current land and building values used in the Statement of Accounts are based upon a certificate as at 31 March 2012 issued by the Council's Property Group Manager, P. Robinson MRICS, on 31 May 2012. A rolling 5 year revaluation programme is in place to maintain the accuracy of the valuations. When significant changes occur in any year they are included in the revaluation work undertaken during that year.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

Impairment

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

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

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

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

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

Depreciation is charged in the year after acquisition or construction. Where depreciation is provided for, assets are depreciated using the straight line method. The lives of the assets vary and fall within the following ranges:

Asset Type	Useful Life (In Years)
Buildings	1 – 50
Vehicles and plant	1 – 20
Infrastructure	40
IT and other equipment	3 – 5
Intangibles	3 – 5
Furniture and Fittings	5 - 15

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. For the *2011/12* Statement of Accounts the Authority has not identified any components to be depreciated separately.

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

Capital receipts are required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

9. FINANCIAL ASSETS

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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

However, the Authority, for policy reasons, can make loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the

Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

10. CASH AND CASH EQUIVALENTS

Amounts held in call accounts or money market funds are highly liquid and readily convertible. These can be held for relatively long periods as call account rates are currently attractive.

However, these accounts are used to cover short-term cash flow needs and so will be classed as cash equivalents.

Fixed term investments, of whatever duration, are not readily convertible to known amounts of cash. Fixed deals can be broken but only through negotiation with the borrower and at a penalty depending on the fair value of the loan at the time of break. All fixed term investments will not therefore be classed as cash equivalents.

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

11. OTHER ASSETS

Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Interests in Companies and Other Entities

~~The Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts.~~ In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

12. INVENTORIES

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

13. ACCRUALS OF INCOME AND EXPENDITURE

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Where significant debtors or creditors arise from such items as government grants and pay awards that are not yet finalised, estimates are made on the basis of best information that is currently available.

Accounting instructions require accruals to be raised where amounts are in excess of ~~£1,000~~ *£5,000*. Schools are asked to take responsibility for accruing for employee costs where individual amounts owing are in excess of ~~£1,000~~ *£5,000*.

14. FINANCIAL LIABILITIES

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

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

15. LEASES

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

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

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

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower), where the fair value exceeds the £6,000 de minimus limit. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Where material, contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. [When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

16. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

The Authority has entered into a number of Private Finance Partnerships. PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Bassetlaw Schools PFI scheme and East Leake Schools PFI scheme, the liability was written down by an initial capital contribution of £9.0 million and £2.9 million respectively.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement

- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

17. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

~~Area Based Grant~~

~~Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.~~

18. PROVISIONS

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value.

Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

The fair value of landfill allowances is currently assessed at zero and the Authority has not incurred any cash penalty, so no values are recorded for use of landfill during the *2011/12* financial year.

19. CONTINGENT LIABILITIES

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

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

20. CONTINGENT ASSETS

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

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

No contingent assets have been identified for the Authority at 31st March 2012.

21. RESERVES

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority. These reserves are explained in Note 45.

22. VAT

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

23. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

24. FOREIGN CURRENCY TRANSLATION

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

25. THE CARBON REDUCTION SCHEME

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

26. HERITAGE ASSETS

Tangible and Intangible Heritage Assets

The Authority's Heritage Assets are held at County Hall or at the Nottinghamshire Archives. Nottinghamshire Archives has a number of architectural drawings and records relating to Rufford Abbey and the Savile of Rufford Estate. These collections are held in support of the primary objective of the Authority's Archives. In addition, the Authority retains a number of important ceremonial regalia and paintings that are also retained for increasing the knowledge, understanding and appreciation of the Authority's history and local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Authority's collections of heritage assets are accounted for as follows:

Ceremonial Regalia and Art Collection

The ceremonial regalia and art collection includes ceremonial items, paintings (both oil and watercolour), sketches, sculptures, glass and silver ware and is reported in the Balance Sheet at market value. There is an annual programme of valuations and the items in the collection are valued by an external valuer. These assets are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation. Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the external valuers and with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

Architectural Drawings and Records

The architectural drawings and records relating to the Savile of Rufford Estate are held at Nottinghamshire Archives and are reported in the Balance Sheet at historical cost. Valuation of these items is not readily available and the Authority believes that the benefits of obtaining annual valuations for these items would not justify the cost. These assets are deemed to have *indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation. Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation if appropriate with valuations provided by external valuers. Nottinghamshire Archives hold a number of other records (eg Lothian of Melbourne records) that are valued less than £10,000, consequently, the Authority does not recognise these assets on the Balance Sheet.*

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. Where assets are disposed the proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Nottinghamshire County Council

Report to AUDIT COMMITTEE

23 May 2012

Agenda Item:

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

AUDIT COMMISSION - AUDIT PLANS 2011/12 PROGRESS REPORT

Purpose of the Report

1. To inform Members of the External Auditor's progress on the Audit Plans 2011/12 for the County Council and Nottinghamshire Pension Fund.

Information and Advice

2. The Authority's External Auditor, the Audit Commission, has prepared its Audit Plans for the Council and Pension Fund for the financial year 2011/12. Ian Sadd and Mike Norman from the Audit Commission will attend the meeting and present the key features of the progress on these Plans, copies of which are attached for Members' information.

Statutory and Policy Implications

3. 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

4. That Members receive, and comment upon, the External Auditor's progress on the Audit Plans for 2011/12.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
Nigel Stevenson

Constitutional Comments

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

Financial Comments

6. There are no financial implications arising from the 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

Audit Plan 2011/12 - Progress Report

Audit Committee 23 May 2012

Nottinghamshire County Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Summary

This report summarises for the Audit Committee's information the progress to the end of April 2012 on the County Council and Pension Fund 2011/12 audits

Background

1 The statutory requirements governing our work are set out in the Audit Commission Act 1998 and the Code of Audit Practice.

2 The Code of Audit Practice (the Code) defines our responsibilities in relation to the financial statements and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are required to comply with the Code as well as professional auditing guidelines and standards. The Audit Commission mandates annually specific elements of the audit and inspection work. Our respective roles are also set out in the Audit Commission's published Statement of Responsibilities of Auditors and of Audited Bodies.

3 The initial 2011/12 Audit Plans were agreed at the Audit Committee's May 2011 meeting. The updated Audit Plans and risk assessments were reported to the Audit Committee's March 2012 meeting.

2011/12 Audit Plans - Progress

4 Since the last Audit Committee we have:

- continued to discuss with officers any significant current year accounting issues and their arrangements for closedown and producing and publishing the financial statements;
- liaised with Internal Audit and considered any matters brought to our attention by members of the public;
- completed as much of the interim audit work on the County Council and Pension Fund financial systems as we are able to at this stage; and
- started early substantive testing of the Council and Pension Fund investments; and
- reviewed the Council's arrangements for obtaining the IAS19 Pensions estimates from the Actuary, and the property valuations from the Council's valuer.

5 The updated Audit Plans identified a significant audit risk for the County Council and Pension Fund 2011/12 opinions relating to the changes to the Council's core financial systems during the year. The plans set out the specific audit work we expected to take in response to this risk and progress is summarised in Table 1.

Table 1: **Significant Risks - Update**

The introduction of the new Business Management System in 2011/12 sees the replacement of many of the Council's financial systems, including the General Ledger. This is a risk for the County Council and the Pension Fund audits as weaknesses in the control and operation of these systems could lead to delays in the accounts' production or result in a material misstatement.

Planned Response	Progress
We will document the new systems and changes in interfaces, and identify and test key controls.	We have documented the systems and tested the key controls as far as possible at this stage. We will complete the remainder of the controls testing, which relates to year-end processes, during the final accounts audit in July 2012.
We will liaise with Internal Audit and where possible rely on their testing of data transferred and interfaces, accounts payable and receivable and payroll.	We have reviewed Internal Audit's work and, in line with auditing standards, re-performed elements of their testing. We have been able to rely on their completed work. We have carried out further 'top-up' testing where necessary to ensure the sample tested covered the full year's transactions and to meet the minimum sample sizes required under our audit approach.
We will rely on Internal Audit's overview and testing of the overall BMS programme.	We have reviewed and been able to rely upon Internal Audit's work.
We will document the new General Ledger system and test controls as appropriate.	We have documented the system and tested the key controls as far as possible at this stage. Some of the key reconciliations were in progress or controls were not fully established at the time we carried out our audit work. We will complete the controls testing, including year end processes and the established procedures, as part of the final accounts audit. We will at the same time carry out additional substantive testing on the bank reconciliation process and any significant correction/adjustment journals.
We will check the opening balances on the SAP General Ledger and transferred data, and test all material feeder system reconciliations to the General Ledger at the year-end.	We have completed the planned work on opening balances and transferred data, with no matters arising. We will complete the planned work on the material reconciliations as part of the final accounts audit.
We will substantively test the SAP Chart of Organisation and classification of income and expenditure transactions.	We have completed the work planned at this stage, with no matters arising. We will carry out the rest of the planned testing as part of the final accounts audit in June/July 2012.

6 No additional significant risks have been identified at this stage for either the County Council or Pension Fund audits. We still expect to contain the planned audit work to address this and other audit risks within the scale fees. We will advise the Committee at its next meeting if this has not been possible.

7 We will continue to liaise with officers regarding the work required to complete the interim audits and the detailed audit of the financial statements. We expect to issue the Annual Governance Reports and proposed audit opinions in time for the September 2012 Audit Committee and County Council meetings.

Nottinghamshire County Council

Report to AUDIT COMMITTEE

23 May 2012

Agenda Item:

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

AUDIT COMMISSION - AUDIT FEES 2012/13

Purpose of the Report

1. To inform Members of the proposed Audit Commission fees for 2012/13.

Information and Advice

2. The attached report details the indicative fees for forthcoming Audit Commission work in respect of Nottinghamshire County Council and Nottinghamshire Pension Fund.

3. Representatives of the Audit Commission 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

5. That Members note the proposed Audit Commission fee levels and comment accordingly.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
Nigel Stevenson

Constitutional Comments

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

Financial Comments

7. The anticipated proposed total fees, excluding the indicative fee for grant claim certification, are £130,950 for Nottinghamshire County Council and £28,995 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

Audit Commission Work Programme and Scale of Fees

Nottinghamshire County Council Audit Committee

Audit 2012/13

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Summary

1 Following consultation, the work programme and fee scales for 2012/13 have been confirmed for audits of local government, fire, police and health bodies. The Audit Commission published its Local Government Work Programme and Scale of Fees for 2012/13 on 11 April 2011 (Appendix 1). The key points from the publication are:

- The scale fees set by the Commission have been reduced by up to 40% for local government audits and have been fixed for five years. The Nottinghamshire County Council 2012/13 fee has been set at £130,950 (£218,250 in 2011/12).
- Grant certification fees are to be reduced from 2012/13 by 40 per cent. The previous schedule of maximum hourly rates is being replaced with a composite indicative fee for certification work for each council, with the indicative fee based on the latest actual certification fees for 2010/11. The Nottinghamshire County Council indicative fee for 2012/13 is £1,950.
- The Commission has specified that auditors will continue to carry out audit work on the Whole of Government Accounts.
- The Value for Money Conclusion audit will continue to be based on the two criteria, specified by the Commission, about audited bodies' arrangements for securing financial resilience and prioritising resources.
- The Commission does not envisage carrying out any inspections at any Councils in 2012/13, unless specifically directed to do so by the Secretary of State.
- The Commission will continue to charge fees to cover the additional costs of dealing with any local elector's objections to the accounts which have been accepted as valid.
- The Commission expects to publish its 2012/13 fee scale for Pension Fund audits soon. The fees are expected to be up to 40% less than in 2011/12 (the Nottinghamshire fee was £48,325 in 2011/12).

2 In March 2012, the Commission concluded the procurement exercise to outsource the work of the audit practice, awarding five-year contracts to four private sector firms. The East Midlands contract has been awarded to KPMG. The Commission is consulting all audited bodies in April 2012 about the appointment of their auditor for the audit of the 2012/13 and future years' accounts. The appointments will start on 1 September 2012 and the Nottinghamshire County Council 2012/13 Audit Plan and fee proposals is expected to be prepared and presented to the Audit Committee by KPMG.

Appendix 1 – Work Programme and Scale of Fees 2012/13 - Local Government

Work programme and scales of fees 2012/13

Local government

April 2012

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we appoint currently are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

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Contents

Introduction

1 This document sets out the work the Audit Commission plans to undertake at local government and police audited bodies during 2012/13, with the associated scales of audit fees. Separate documents cover the Commission's work in the NHS and at small bodies. The document does not cover probation trusts, which from 2012/13 come within the remit of the National Audit Office.

2 The work of the Commission and its appointed auditors is carried out under the Audit Commission Act 1998 and the Code of Audit Practice 2010 (the Code). Copies of the Code and the associated Statement of Responsibilities of Auditors and Audited Bodies are on the Commission's website. Responsibility for the conduct of the audit remains, always, that of the appointed auditor.

3 Under section 7 of the Audit Commission Act 1998, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing any scales of fees, we consult audited bodies in local government, their representative associations, the Department for Communities and Local Government and the accountancy profession.

4 Fees are the principal way the Commission finances its activities. In law, audit fees are not a fee for audit services, but a levy to fund the costs of the Commission, out of which it meets the costs of audits and its other statutory functions. It has a statutory duty to cover its costs, taking one year with another. The Commission is reducing significantly in size and cost, and this is reflected in the scale of reductions we are making in audit fees.

5 The Commission publishes the scale fees for individual bodies each year on its website, to support transparency and to help audited bodies compare their fees with those of similar bodies. A fee comparator tool is also available on the website.

6 Section 28 of the Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work we undertake.

Scales of fees from 2012/13

7 The Commission consulted on proposals for 2012/13 scales of fees for local government bodies in September 2011, and for police bodies in January 2012. These proposals were for a reduction of 10 per cent in the audit fees applicable in 2011/12, subject to the outcome of the procurement exercise to outsource the work of the Commission's in-house audit practice. We said then that we hoped the procurement exercise would realise further

reductions in the cost of audit, which we can pass on to audited bodies in the form of even lower fees.

8 The consultation comments we received, and the Commission's response, are set out in separate documents for local government and police bodies, and are available from our website.

9 In March 2012, the Commission concluded the procurement exercise to outsource the work of the audit practice, awarding five-year contracts to four private sector firms.

10 Through the Commission's unique bulk purchasing power, we have been able to secure significant reductions in the cost of audit services. Together with further savings achieved through the Commission's own internal efficiencies, the Commission will now pass on reductions of up to 40 per cent in audit fees for local public bodies.

11 When we consulted on proposed fees for police bodies, we had expected their fees to increase by 17 per cent. This reflected the fact that there will be a volume increase in audit work from 2012/13 because of changes introduced by the Police Reform and Social Responsibility Act 2011. The changes require auditors to undertake audits of two statutory bodies in a police area from 2012/13, rather than one. Because of the savings we have achieved, scales of fees for police bodies overall will now be reduced by a net 13 per cent.

12 We are also reducing certification fees from 2012/13 by 40 per cent, replacing the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee is based on the latest actual certification fees for 2010/11.

13 The fee reductions apply to all local government and police bodies from 2012/13, for the length of the contracts. Local government and police bodies are expected to save an expected £165 million over five years.

14 The Commission is consulting all audited bodies in April 2012 about the appointment of their auditor for the audit of the 2012/13 and future years' accounts. The appointments will start on 1 September 2012. As an auditor must be in place at the start of the financial year, the Commission is making interim audit appointments from 1 April 2012. The statutory terms of interim auditors' appointment limit their role to keeping a watching brief. We do not expect the interim auditor will need to undertake any substantive audit work relating to 2012/13. Provided this is the case, the Commission will meet any costs incurred by the interim auditor.

15 Where, exceptionally, an issue arises that requires the interim auditor to do substantive audit work, for example to exercise their statutory reporting powers, the interim auditor will immediately tell both the audited body and the Commission. Where appropriate the Commission will determine a variation to the scale audit fee to reflect the costs of the work. The additional fee will then become payable by the audited body.

Work programme 2012/13

Audit

16 Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing the body, and the arrangements it has put in place to manage those risks.

17 Under the Code, the Commission may specify additional audit work to supplement the local risk-based approach to planning the audit. For 2012/13, the Commission has specified work on Whole of Government Accounts (WGA).

Auditors' local value for money work

18 Under the Audit Commission Act 1998, auditors must satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

19 Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will apply a focused approach resulting in a positive conclusion – the value for money (VFM) conclusion – on the bodies' arrangements. This approach is based on two criteria, specified by the Commission, about audited bodies' arrangements for:

- securing financial resilience; and
- prioritising resources.

20 Auditors will apply a light-touch approach to their VFM work at other local government bodies designated as larger relevant bodies in the Accounts and Audit (England) Regulations 2011 (the Regulations). These bodies include: national parks authorities; waste disposal authorities; integrated transport authorities; passenger transport executives; pension fund authorities and larger joint committees. The light-touch approach is based primarily on a review of the annual governance statement. Auditors are required to conclude whether or not there are any matters arising from their VFM work that they need to report. This is included in their formal audit report issued at the end of the audit.

21 Auditors of smaller relevant bodies, as defined by the Regulations, which opt to prepare accounts as if they were a larger relevant body will apply the VFM approach for other local government bodies designated as larger relevant bodies.

Certification work

22 As well as their work under the Code, appointed auditors, as agents of the Commission, must certify grant claims and returns.

23 For 2012/13, we are replacing the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee is based on actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40 per cent reduction.

24 In 2012/13, we will not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors will undertake only limited tests will remain at £500,000. Above this threshold, certification work takes account of the audited body's overall control environment for preparing the claim or return.

Assessment and inspection work

25 Following the cessation of CAA in May 2010, there is no longer a programme of mandatory inspection work. We do not envisage carrying out any inspections in 2012/13, unless specifically directed to do so.

National reports

26 The Commission will publish a small number of national reports on the results of audit, analysis and related work at local government and police bodies, under its statutory powers under section 33 of the Audit Commission Act 1998.

27 In particular, the Commission will again publish a series of reports naming those bodies that received a qualified opinion or VFM conclusion, or whose audited accounts have not been published by 30 September 2013.

28 The reports will cover local authorities, fire and rescue authorities, local police bodies, and other local government bodies.

Scales of fees for 2012/13

Scales of audit fees for local government, police and fire and rescue bodies

29 The scales of fees for 2012/13 reflect the cost of the work programme outlined above. The scale fee for individual audited bodies is available on our website.

30 The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

31 It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body.

32 As the 2012/13 scale fees for individual bodies are based on the fee for 2011/12, they already reflect the auditor's assessment of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2011/12 fee.

33 The Commission will get final fee information from appointed auditors, and explanations for any proposed variations from the scale fee, after they have completed the 2012/13 audit. The Commission will consider the reasonableness of the explanations provided by auditors before determining the fee.

34 The Commission will charge fees to cover the costs of considering objections, from the point at which auditors accept an objection as valid, as a variation to the scale fee. This also applies to costs incurred on any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Pension fund audits

35 Table 1 sets out the scales of fees for pension fund audits for 2012/13.

Table 1: **Pension fund proposed scales of audit fees**

Local government pension funds	Fixed element (£)	Plus a percentage of 2010/11 net audited assets
Multi-employer funds	20,000	0.00033
Single-employer funds	21,000	n/a

Source: Audit Commission

Certification work

36 The indicative fee for certification work at individual audited bodies is available on our website.

37 The indicative fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

38 It is a matter for the auditor to decide the work necessary to certify the claim or return and to seek to agree any proposed variation to the indicative fee with the audited body.

39 As the 2012/13 scale fees for individual bodies are based on the latest actual certification fees for 2010/11, they already reflect the auditor's assessment of the work required. Therefore, we expect variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the actual 2010/11 fee.

40 The Commission will get final fee information from appointed auditors, and explanations for any proposed variations from the indicative fee, after they have completed their 2012/13 certification work programme. The Commission will consider the reasonableness of the explanations provided by auditors before determining the fee.

Inspection and assessment

41 The Commission will charge fees for any risk-based inspections we are specifically directed to undertake at a level that covers the full cost of the work we undertake.

Value added tax

42 All the 2012/13 fee scales exclude value added tax, which will be charged at the prevailing rate of 20 per cent on all work done.

Nottinghamshire County Council

Report to Audit Committee

23 May 2012

Agenda Item: 10

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT

INTERNAL AUDIT ANNUAL REPORT – 2011/12

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 2011/12, and based on this work, his opinion on the adequacy of the County Council's internal control environment.

Information and Advice

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 work to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. 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) include an opinion on the overall adequacy and effectiveness of the organisation's control environment
   b) disclose any qualifications to that opinion, together with the reasons for the qualification
   c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
   d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control (now replaced by the Annual Governance Statement)
   e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets
   f) comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

4. The Head of Internal Audit has set out the work completed during 2011/12, 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 unsatisfactory, 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 adequate during 2011/12.**

6. The Annual Report also sets out an analysis of the Audit Section's performance during 2011/12 in Table 3. The performance of the Section has been good during the year, with the number of days and audits completed exceeding the Audit Plan. In addition, the response of managers to the recommendations made has continued to be positive, whilst the Customer Satisfaction Score averaged 1.5 (on a scale where 1 is excellent and 5 is poor).

Other Options Considered

7. The Audit Section work to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. This report meets the requirement of the Code 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 2011/12.

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

That Members note the Head of Internal Audit's Annual Report for 2011/12 and comment accordingly.

Paul Simpson
Service Director - Finance and Procurement

For any enquiries about this report please contact:
John Bailey
Head of Internal Audit

Constitutional Comments

The report is for noting only

Financial Comments (JMB 27/4/12)

There are no direct financial implications arising from this report. The net cost of the Internal Audit Section for 2011/12 was approximately £345,000.

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

Nottinghamshire County Council

Internal Audit

Annual Report

2011/12

Purpose of the Report

1. To set out the work carried out by Internal Audit during 2011/12, 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 are carried out in accordance with the CIPFA Code of Practice for Internal Audit, which defines the standards that should be followed to achieve best professional practice.

<u>Summary of Internal Audit Work for 2011/12</u>

4. The audits completed during 2011/12 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 (2360 days) is above the original plan (2135 days). This is due to there being no vacancies during the year and a below average level of sick leave. There were 167 audit jobs completed during the year on County Council systems and procedures.

5. Of the 167 County audit jobs, 34 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 (133 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:-

   Sound – there are no weaknesses or only minor weaknesses
   Satisfactory – most of the arrangements for financial management are effective, but some weaknesses have been identified
   Unsatisfactory – 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 2011/12 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 2011/12

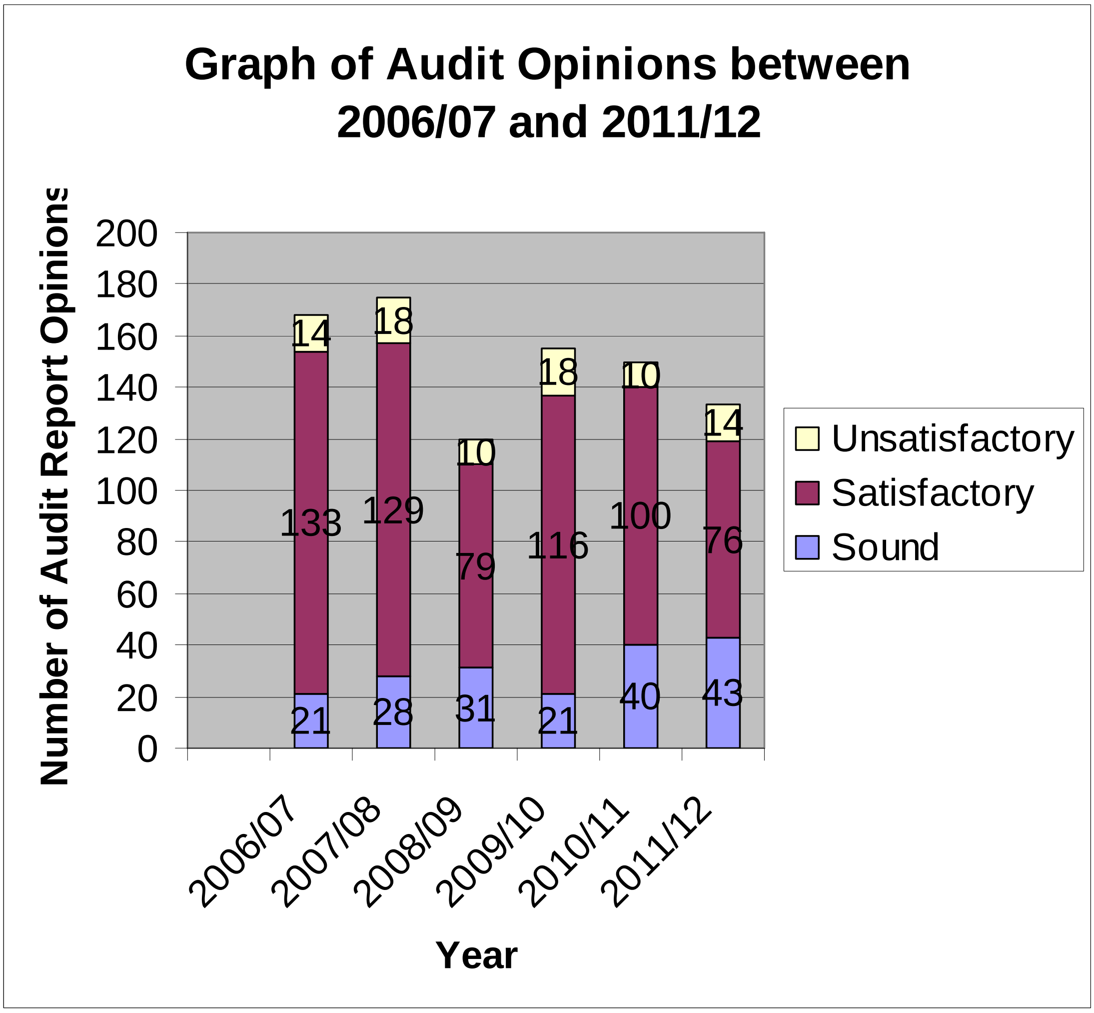
Department	Opinion			Total
	Sound	Satisfactory	Unsatisfactory	
Children Families and Cultural Services	5	10	1	16
Schools	33	34	4	71
Adult Social Care, Health and Public Protection	2	12	3	17
Environment and Resources	2	15	5	22
Policy, Planning and Corporate Services	1	5	1	7
TOTALS	43	76	14	133
Percentage	32%	57%	11%	100

7. There were 1061 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 (99%) were agreed for implementation.

8. From the table, it can be seen 119 of the 133 areas reviewed during 2011/12 were found to be sound or satisfactory. This equates to 89% of the areas reviewed. There were 11% of areas audited which were categorised as unsatisfactory. 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 chart below.



10. As can be seen from the chart above, the number of unsatisfactory audit opinions during 2011/12 has increased compared to the previous year. The Authority is currently undertaking a transformation programme which delivered savings of the order of £70 million in 2011/12. This has involved a significant amount of change during the year, including the introduction of the new Business Management System (BMS), reorganisation of departments, services and organisational structures, and the loss of a number of experienced employees.

11. The 34 special projects during the year covered a range of issues including:-

- Attending workshops on the new Business Management System modules and providing advice and feedback on proposed control systems and systems documentation
- Advice on the implementation of pay scheme in schools
- 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 a number of suspected irregularities

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 89% 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 adequate. However, the fact that 11% 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. 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 2 below.

Table 2: Analysis of Performance Indicators 2011/12

Indicator	**Target**	**Outcome**
Comply with Audit Code of Practice	Substantial compliance	Achieved
Completion of Audit Plan:- Number of days Audits completed	 90% 90%	 110% 123%
Customer Satisfaction score	Under 2	Average 1.5
Recommendations accepted	95% acceptance	99% accepted
Productive time	Over 70%	73% achieved
Net audit cost per £1m turnover	£650	£323
External audit review	Positive	Positive

15. Overall, performance during the year has been above target. The number of audit days provided exceeded the planned days, as did the number of jobs completed. There are two main reasons for the good performance. Firstly, the Audit Section has maintained a full

complement of staff throughout the year, with no vacant posts. Secondly, there has been a low incidence of sickness absence.

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 (99%).

17. The actual net audit cost per £1m turnover reduced in 2010/11 to £450, compared to a county council average of £476. The net cost in 2012/13 will be similar to 2011/12, given the reduction in the number of staff and the additional revenue generated from charging schools for the true cost of the audit work required.

Quality Assurance Programme

18. The CIPFA Code of Practice requires Internal Audit Sections to carry out a Quality Assurance Programme to ensure that appropriate quality standards are being applied. The review for 2011/12 was positive for the files reviewed. A small number of issues were identified on the documentation of supervision and signing and dating working papers. These will be addressed.

Conclusion

19. The work undertaken by Internal Audit during 2011/12 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 11% 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

Appendix 1

INTERNAL AUDIT ANNUAL PLAN REPORT 2010/11

PERFORMANCE AGAINST PLAN

	Annual Plan Days	Actual Days	Variance Days
Children and Young People	655	703	+48
Adult Social Care and Health	280	299	+19
Environment and Resources	680	754	+74
Policy, Planning and Corporate Services	140	244	+104
Contingency	200	142	-58
County Council Total	1955	2142	+187
External Contracts	180	218	+38
OVERALL TOTAL	2135	2360	+225

APPENDIX 2

INTERNAL AUDIT PLAN 2011/12

Audits Completed 1 April 2011 to 31 March 2012

Audit Report Department and Area audited	**Audit Opinion**	**Recommendations made and Risk Rating**			**Recommendations Agreed**		
		High	Medium	Low	High	Medium	Low
Adult Social Care, Health and Public Protection							
Resource Allocation System	Satisfactory		4			4	
Meal at Home Income	Unsatisfactory		11			11	
Deputyships	Satisfactory		3	2		3	2
Jubilee Court Care Home	Unsatisfactory	1	17	7	1	17	7
Brooke Farm	Satisfactory		4	3		4	3
Gedling Day Services	Satisfactory	1	5		1	5	
Willow Wood Day Centre	Satisfactory	1	3	2	1	3	2
Residential Care Homes – Payments and Receipts	Satisfactory		1			1	
Holles Street Short Breaks	Satisfactory		5	2		5	2
Home Care Commissioning – Physical Disabilities	Satisfactory		4			4	
Assessments and Commissioning – Older Adults	Sound						
Assessment Reviews	Satisfactory		4			4	
Trading Standards – Follow up	Satisfactory			1			1
i-work Team	Unsatisfactory	4	3	3	4	3	3
Balderton Resource Centre	Sound		3	4		3	4
Kingsbridge Way – Short Breaks	Satisfactory		4	2		4	2
Jubilee Court Care Home – Follow up	Satisfactory						
Sub Total		7	71	26	7	71	26

Audit Report Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
<u>Children, Families and Cultural Services</u>							
School Transport follow up	Satisfactory						
Youth Clubs follow up	Satisfactory	4	2	5	4	2	5
Behaviour and Attendance Service	Satisfactory		4			4	
Outdoor Education	Sound						
Lyndene Residential Home	Satisfactory		8	2		8	2
Newark and Sherwood Children's Centres	Satisfactory		2	3		2	3
National Water Sports Centre	Unsatisfactory	1	12	2	1	12	2
Budget Management – Specialist Placements	Satisfactory		3			3	
Budget Management – Children's Social Care follow	Satisfactory		2			2	
up	Sound	1			1		
Families Information Service	Satisfactory		1	3		1	3
Skills for Employment follow up	Satisfactory	1	14	2	1	14	2
Sports Service	Satisfactory		15	2		15	2
Adventure Bases	Sound			3			3
Beeston Family Support Service Team	Sound		1	1		1	1
Gedling Family Support Service Team	Sound		3			3	
Fostering Allowance							
Sub Total		7	67	23	7	67	23

Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
<u>Environment and Resources</u>							
Business Planning	Satisfactory		3	2		3	2
Credit Control	Satisfactory		4	5		4	5
Treasury Management	Satisfactory		3			3	
County Supplies	Satisfactory		9	2		9	2
School Meals Income	Unsatisfactory	1	2	2	1	2	2
Cleaning Supervision	Unsatisfactory	1	5		1	5	
Capita One	Satisfactory		4	2		4	2
Cash Income probity	Satisfactory		6			6	
Desktop Management	Unsatisfactory	1	7		1	7	
Highways Design	Satisfactory		3	1		3	1
Business Planning	Satisfactory			3			3
Windows Servers	Satisfactory	1	1	1	1	1	1
Social Care Records (Framework)	Unsatisfactory	4	1	2	4	1	2
Information Management follow up	Satisfactory		4			4	
Highways Insurance Claims	Satisfactory		1	1		1	1
Rechargeable Works Orders – Accident Damage	Unsatisfactory		6			6	
Linux Servers	Satisfactory		2	2		2	2
Government Connect	Sound			2			2
Bank Account Management	Satisfactory		1	2		1	2
Highways Asset Management System	Satisfactory		4	5		4	5
Local Bus Services	Satisfactory	1	2	6	1	2	6
Highways Manage Operate Partnerships	Sound		1			1	
Sub Total		9	69	38	9	69	38

Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
Policy, Planning and Corporate Services							
Planning Applications	Satisfactory		2			2	
Improvement Programme Consultants	Unsatisfactory	1	2	1	1	2	1
Payroll Probity	Satisfactory		1	1		1	1
Business Planning	Satisfactory		1	3		1	3
Newark Beacon	Satisfactory		1	1		1	1
Worksop Turbine	Satisfactory		2	2		2	2
Mansfield i-centre	Sound						
Sub Total		1	9	8	1	9	8
School Audits							
Secondary Schools (5 final reports issued)		3	51	20	3	50	20
Primary Schools (66 final reports issued)		20	523	109	20	511	108
TOTAL		**47**	**790**	**224**	**47**	**777**	**223**

Appendix 3

Audit Reports issued during 2011/12 which had an "Unsatisfactory" Audit Opinion

COR 1111 – ICT Desktop Management – May 2011. Recommendations were made, and agreed, to address a range of weaknesses, including:-

* A reconciliation of information in ManageSoft asset management and Active Directory, to ensure that there is a definitive list of desktop equipment.
* Documenting transfer of equipment between sites.
* Identification of all equipment held and its location.
* Providing virus checks when using removable media (for example data sticks).
* Developing a process for dealing with the former Adult Social Care department's equipment.
* Control over licences in respect of de-commissioned equipment.

CEX 1105 – Employment of Consultants on the Improvement Programme – May 2011. Recommendations were made to further tighten the controls over the appointment of consultants, including to:-

* Develop a combined form which will apply across the Council.
* Confirm with consultants that they are bound by the Council's Financial Regulations.
* Remind staff of the need to comply with Financial Regulations and EU procurement rules.
* Ensure that a contract is in place before work commences.

COM 1120 – National Water Sports Centre – June 2011. A report was brought before the Audit Committee on 12th September 2011 which identified the issues in this report. The key weakness was over separation of duties in income collection.

E&R 1205 – Cleaning Supervision – June 2011. A number of system weaknesses were identified. In particular, recommendations were made to improve management controls over vehicle use, fuel costs, staff attendance, annual leave and mobile phone use.

ASC 1201 – Meals at Home Income - August 2011. A review was completed looking at the processes in place in Nottinghamshire and Warwickshire, following the entering of a contract with Warwickshire in May 2010. The review identified weaknesses including not destroying 'merchant copy' receipts promptly, no formal handover for transfer of cash, security of cash, prompt banking of cash received, debt management and reconciliation between the local and official accounting systems.

ASC 1203 – Jubilee Court Care Home – August 2011. A large number of recommendations were made to address a range of weaknesses in the areas of income collection, operation of the imprest account, handling of residents' allowances and property, and control over the comforts funds.

E&R 1203 – School Meals Income – September 2011. Although a relatively small number of recommendations were made (five), there is a key weakness in control. The record of cash counted and banked should be compared to the Daily Reconciliation Report. Failure to do this means that any discrepancy between the income received and income banked will go undetected. As there are over 300 schools with budgeted income of £9 million this is a significant risk.

E&R 1204 – Social Care Records (Framework) – January 2012. A number of issues were raised about the management and control of the system. In particular these related to failure to comply with password standards, no review of inactive accounts, duplicated accounts and non-compliance with record retention policy.

E&R 1211 – Rechargeable Works Orders – January 2012. The audit identified weaknesses in assessing the evidence for liability, time delays in raising invoices, documenting fully the costs of repairs and concerns over clearly identifying the culpable party.

ASC 1217 – i-Work Team – February 2012. Financial control within the Team was weak, with a large projected overspend against the budget, and inadequate control over travel expenses, income and assets. Ten recommendations were made and agreed to improve the level of control.

Primary School Audit. There were four primary school audits carried out during 2011/12 that resulted in an “Unsatisfactory” audit opinion. The issues raised were concerned with governance, ordering and purchasing of goods and services, control over income and management of the bank account. Recommendations have been made and agreed to address the weaknesses. The Audit Report is addressed to the Headteacher and the Chair of Governors for action.

Nottinghamshire County Council

Report to Audit Committee

23 May 2012

Agenda Item: 11

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT

DRAFT ANNUAL GOVERNANCE STATEMENT – 2011/12

Purpose of the Report

1. To inform Members of the proposed Annual Governance Statement 2011/12 and to invite Members to consider and approve the Statement prior to its accompanying the Statement of Accounts 2011/12.

Information and Advice

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 Cabinet and/or Full Council which will be done as part of the approval process for the Statement of Accounts 2011/12.

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 2011/12.

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

That the Committee endorses the Annual Governance Statement 2011/12 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 2011/12.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
John Bailey
Head of Internal Audit

Constitutional Comments (KK 27/4/12)

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

Financial Comments (JMB 26/4/12)

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

APPENDIX

NOTTINGHAMSHIRE COUNTY COUNCIL

DRAFT
ANNUAL GOVERNANCE STATEMENT 2011/12

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.

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.

The County Council has approved and adopted a local code on corporate governance, which is consistent with the principles of the CIPFA/SOLACE (Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives) Framework *Delivering Good Governance in Local Government.* This statement explains how the Authority has complied with the code and also 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 is made up from the systems, processes, culture and values put in place by the Authority. The Authority uses this framework to direct and control its work and ensure that it engages with, leads, and accounts to the community. The framework enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

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 policies, 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 policies, 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 2012 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's Strategic Plan for 2010-14 was approved in 2010. The Plan:-

- Provided a clear statement of the Authority's priorities, promises and values.
- Enabled agreed political objectives and statutory requirements to drive the Authority's activities.
- Enabled the communication of the Authority's priorities to the community of Nottinghamshire, partner organisations and staff.
- Provided 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 2010 to 2014. Progress on the Authority's achievements is assessed by the monitoring of agreed key actions and meeting performance indicator targets. Performance is reported quarterly to the Performance Improvement Board, who are mandated by the Corporate Leadership Team to manage performance on their behalf. An annual report on performance for 2011/12 will be presented to Policy Committee in July 2012. The Authority has a performance management framework which sets out in detail the individual factors that are required to manage performance and how they work together in the Authority. This framework is currently being reviewed to reflect the changing political and economic climate in which the Authority now operates. This will be presented to the Corporate Leadership Team and Policy Committee.

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 carries out annual budget consultations. A new corporate complaints team was established from April 2011 to ensure there is a robust complaints procedure. 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 full Council every 6 months through the lead member for performance.

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 Constitution sets out how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Responsibility for decision making, the role of full Council, the Cabinet, Committees and the process for determining key decisions are defined in the Constitution. Delegations are detailed so that the functions of full Council, Cabinet, Cabinet Members, Committees and Officers are specified. Appropriate protocols are in place. The Annual Overview and Scrutiny Report provides a summary of the scrutiny work carried out during the year and highlights the recommendations made by Members to improve the delivery of public services to the communities of Nottinghamshire.

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 is responsible for promoting and maintaining high standards of conduct by the County's Members and officers. As part of its annual work programme during 2011/12, the Standards Committee reviewed complaints on the Authority's services and updates on a range of issues including Freedom of Information, Data Protection Act, Whistleblowing and Members' attendance at meetings. In addition, the Standards Committee presented an annual report to the County Council on 3rd November 2011 setting out the work carried out and significant issues arising.

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 November 2011. 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. Although the Chief Financial Officer is not a member of the Leadership Team, a number of measures have been put in place to ensure that the impact is the same. These include providing details of all issues discussed at Leadership Team to the Chief Financial Officer, who has the right to attend the meeting if he considers it necessary. In addition, the Chief Financial Officer will attend whenever material business decisions are made. 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. The finance function is currently being revised to reflect the changing requirements under the new Business Management System.

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

In its Review of Internal Audit, completed in 2008, the External Auditor commented that the Audit Committee was carrying out the functions expected of it and that its role was in line with the expectations of the CIPFA Code. 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, scrutiny of Treasury Management 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 full Council or Cabinet if it is considered that any proposal, decision or omission would give rise to unlawfulness. In addition, Legal Comments are contained in reports to Council, the Executive 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 the Standards Committee during 2007/8 and a number of changes made. These were approved by the County Council and the new Policy was implemented from 1 February 2008. The Authority's complaints procedure is well established and is monitored by the Standards Committee. In January 2012 the Standards Committee received a 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 2011/12 the member development programme continued to respond to changing national and local policy. Briefings have been arranged to ensure that members were kept up to date on issues and developments, including, among other things, the Localism Bill, Mental Health Guardianship, effect of the Health and Social Care Bill and interviewing skills for recruitment of senior staff. The member reference group has agreed to a process of assessing individual development needs, which will feed into the programme for 2012/13.

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. During the year, a new Competency Framework has been introduced, 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 include the County News civic newspaper delivered to every household in the County, the County website and targeted audiences e.g. service user and carer groups. The setting of the 2012/13 budget has been subject to extensive and robust consultation, reflecting the scale of decisions the Council has needed to make. The Budget Conversation campaign was launched on 26th September 2011 and was designed to gauge the public's view on their broad priorities, and how the Authority's spend should be apportioned at a strategic level. This included the use of an on-line budget simulator, where participants could give their opinions and ideas on how the Council could make the most of its 2012/13 budget. Methods for consulting have included, amongst other things, an on-line questionnaire, inviting comments in County News, making information and questionnaires available at libraries and information points, providing a freepost address for residents to send in their letters, community groups have been engaged via Networking Action for Voluntary Organisations (NAVO) via meetings and correspondence, seeking citizens' panel members views, and direct correspondence with stakeholders.

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 Constitution sets out policy guidance for County Council involvement in partnerships and guidance on entering into partnerships has also been produced. The policy guidance sets out, among other things, the need for clarity in why the County Council has entered into a partnership, the Council's objectives and how the partnership will help deliver them, the powers enabling involvement and the exercising of those powers.

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 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 2011/12, 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:-

- Strategic Plan Performance Report 2010/11
- Refresh of the Strategic Plan 2010-14
- Amendments to the Constitution
- A report from the Chair of the Overview Committee
- Statement of Accounts 2010/11
- Treasury Management Policy and Strategy for 2011/12
- Review of Treasury Management activity
- Budget Report 2012/13 and Medium Term Financial Strategy 2012/13 to 2015/16
- A report from the Chairman of the Standards Committee
- Changes to the Governance Arrangements.

b) Cabinet has considered and approved a number of reports in its role as the Executive including:-

- Management Accounts for 2010/11
- Budget and Capital Programme Proposals for 2012/13 to 2015/16
- Revenue Budget Monitoring.

c) The Audit Committee and Overview Committee have considered a wide variety of issues including:-

- Internal Audit Annual Plan 2011/12
- Counter Fraud Measures
- Annual Governance Statement
- Audit Commission Audit and Inspection Plan
- External Audit Governance Report
- Treasury Management Policy for 2011/12
- Health and well being
- Education
- Communities and the environment.

d) The Standards Committee, in its role as promoting and maintaining high standards of conduct by the County Council has received reports on:-

- Freedom of Information policy

- Corporate complaints procedure – a summary of complaints
- Monitoring of Members Attendance at committees
- Data Protection Act

e) 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 2011/12, is that it is adequate.

f) External Audit's Annual Audit Letter 2010/11, stated that the Auditor issued an unqualified opinion on the County Council's 2010/11 accounts. The accounts were presented on time and complied with the requirements of the newly introduced International Financial Reporting Standards. The accounts were free from material error and no significant weaknesses in internal control arrangements were identified. The Auditor also concluded that the Council had put in place proper arrangements for securing value for money, and that financial governance arrangements are well established and supported by a strong financial management culture.

5. SIGNIFICANT GOVERNANCE ISSUES

The Authority faced an extremely challenging year in 2011/12 as it sought to manage significant budget reductions, increasing demand for some key services and new ways of working, simultaneously. The environment for 2012/13 and beyond will continue to be challenging. However, the transformation programme now underway delivered significant savings in 2011/12 of the order of £70 million and further savings of £59 million are already planned for 2012/13 – 2013/14.

Other key governance issues that need to be addressed against this background are set out below.

a) Potential for continuing reduction in Government Funding. Whilst there is an element of certainty regarding the anticipated reduction in Grant for 2012/13, the situation beyond remains unclear and is further complicated by changes to local government funding and other policy proposals that have far reaching implications for the Council's service and financial planning.

b) The implementation of new organisation structures and significant reductions in posts will impact on governance and control arrangements. New processes will be established and kept under review to ensure that they are effective.

c) The new Business Management System was implemented in November 2011. This has resulted in significant changes to the control structures of the Council, and new ways of working for many employees. A continued focus will be needed to ensure that the many benefits available from the new System are realised.

d) The Council have approved changes to governance arrangements from the Leader / Cabinet Executive arrangement to a committee system from 17th May 2012.

e) Responsibility for public health will transfer to local authorities from April 2013. Transition to the new arrangements will take place during 2012/13.

f) The current standards regime has been abolished by the Localism Act. As a result the Council will be considering what measures it will need to put in place to ensure continuing high standards.

The Audit Committee reviewed the governance framework detailed in this statement at their meeting on 23 May 2011. We are aware of the steps that are being and will be taken to address the above significant governance issues and are satisfied that these are appropriate. We will monitor their implementation during the course of 2012/13.

Signed:………………………………………………………………………………

LEADER

Signed:………………………………………………………………………………

CHIEF EXECUTIVE

Nottinghamshire County Council

Report to Audit Committee

23 May 2012

Agenda Item: 12

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT

INTERNAL AUDIT PLAN – 2012/13

Purpose of the Report

1. To inform Members of the proposed Internal Audit Plan for the 2012/13 financial year.

Information and Advice

The attached Audit Plan sets out the proposed coverage of the Authority's systems and procedures for the period 2012/13. 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.

3. 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.

4. A significant allocation of time has been made for cross-cutting issues in 2012/13. A number of High Risk areas will be reviewed focussing on the new Business Management System, budgetary control, performance management, business continuity and counter-fraud work.

5. 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.

6. 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.

7. The Plan has been compiled in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. 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 2012/13

		Number of Audits			
Department	**Days**	**High Risk**	**Med Risk**	**Low Risk**	**Total**
Cross-cutting	247	14			14
Children, Families and Cultural Services (including schools)	602	11	63	-	74
Adult Social Care, Health and Public Protection	273	10	5	-	15
Environment and Resources	490	26	6	-	32
Policy, Planning and Corporate Services	211	12	-	-	12
Special Projects	100				
Total County Council	1,923	73	74	-	147
External Clients (Work for Fire and Gedling BC)	219				
Overall Total	2,142				

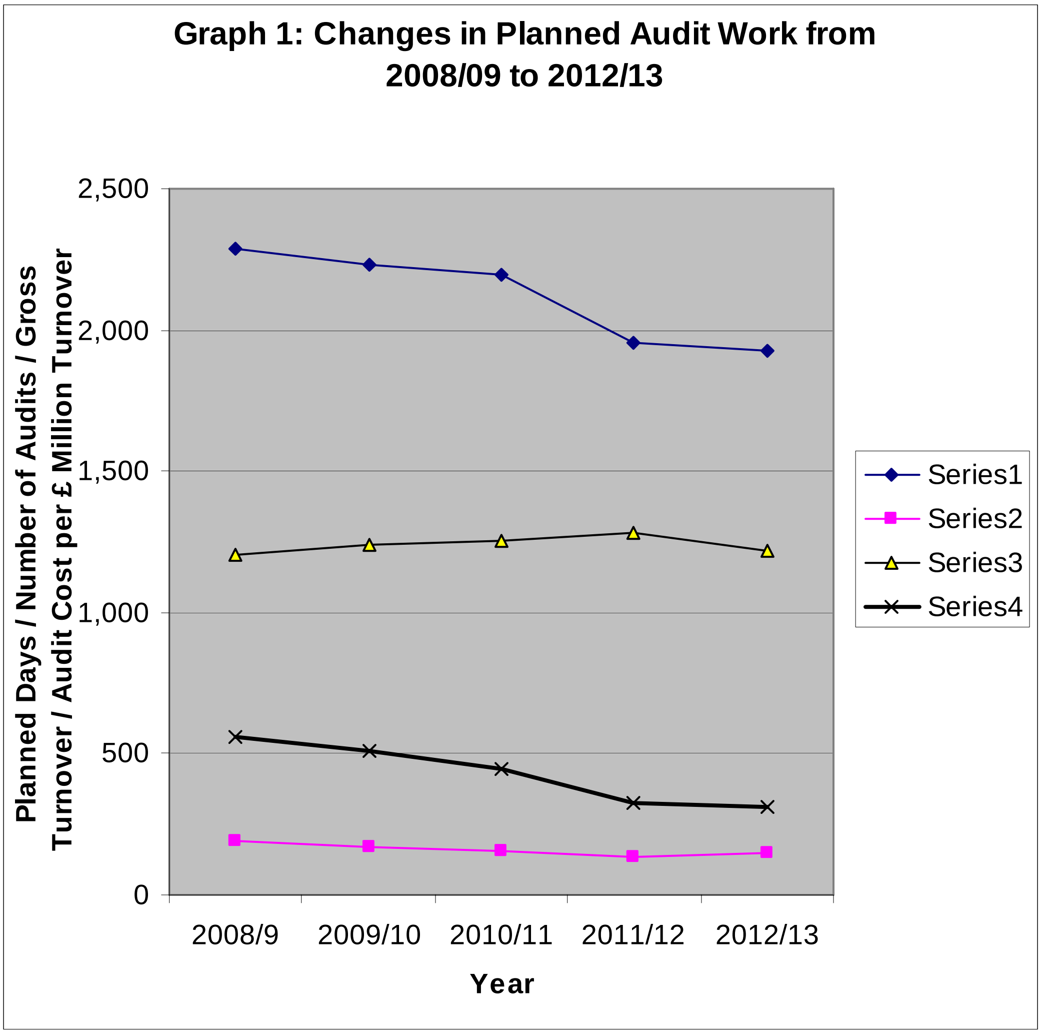
8. As can be seen from the above, a total of 2,142 days are planned for 2012/13 of which 1,923 (90%) will be spent on the Authority's systems and procedures. The remaining 219 days will be spent on external contracts providing an internal audit service to Notts Fire and Rescue Service and work for Gedling Borough Council. External contracts help the section maintain high quality services and costs are fully recovered.

9. The Audit Plan is similar in terms of the number of days and audits for 2012/13 to previous years. A big change for 2012/13 has been the increase in the number of "High Risk" areas (up from 44 in 2011/12 to 73 in 2012/13). This is mainly due to the significant levels of change experienced by the County Council – new systems, new structures and new ways of working. Table 2 sets out planned coverage in previous years, as an indicator of the changing plans over the years. This shows that there has been a gradual reduction in the number of days of Internal Audit for the County Council.

Table 2: Changes in the Planned Audit Days, Planned Jobs, Council Gross Turnover and Internal Audit cost per £ million turnover between 2008/09 and 2012/13

Year	Planned days	Planned audits	Council Gross turnover (£million)	Audit Cost per £m expenditure (£)
	Series 1	Series 2	Series 3	Series 4
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

This information is presented in the graph below.



10. 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

11. This report is for information and noting only.

Reason/s for Recommendation/s

12. To provide information to Members on the Internal Audit Plan of work for 2012/13.

Statutory and Policy Implications

13. 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 report.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
John Bailey
Head of Internal Audit

Constitutional Comments

This report is for noting only.

Financial Comments (JMB 13/4/12)

The net budget for the provision of Internal Audit to the County Council for 2012/13 is £353k. This comprises gross expenditure of £526k 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**
Business Management System Implementation			
BI and Reporting	**High**	15	Post implementation – testing of compliance with the system, and substantive testing of outputs
Property Management (rents)	**High**	10	
Procurement cards	**High**	10	
Supplier self service	**High**	10	
Pensions payroll	**High**	10	
External payrolls	**High**	10	
Schools payroll	**High**	10	Pre implementation – review the testing strategy and process map design
E-learning, appraisals &competency	**High**	10	
E-recruitment	**High**	15	
Adobe forms	**High**	15	
Budgetary control	**High**	40	Control, monitoring and forecasting by departmental budget holders
Performance Management	**High**	40	Corporate and departmental arrangements for managing performance
Business Continuity	**High**	30	Corporate controls and departmental arrangements for disaster recovery
Counter fraud work	**High**	17	Compilation and submission of National Fraud Initiative data
Financial Regulation waiver advice	Not applicable	5	Provide advice and draft annual report
Total days		**247**	

Children Families and Cultural Services

Area for audit	Risk assessment	Days planned	Likely scope
Children's Social Care			
Placements / commissioning	**High**	15	Review of risk factors and internal control
Education Standards and Inclusion			
Special Educational Needs	**High**	15	Funding and commissioning
PFI partnerships and contracts	**High**	15	Contract compliance
Capital programmes - schools	**High**	8	Already underway
Early retirement and redundancy	**High**	7	Already underway
Youth, Families and Culture			
Libraries and Archives	**High**	15	Review of risks and internal control
Country Parks	**High**	15	As above
Early Years – Nursery providers	**Medium**	15	As above
Targeted Support & Youth Justice	**Medium**	15	As above
National Water Sports Centre – Catering and Follow up	**High** **High**	10 2	Follow up of prior recommendations of 2 audits
Outdoor Education Day Centres	**High**	10	Review of risks and internal control
Youth Club Funds	**Medium**	5	Sample check of fund accounts
Other Work			
LACSEG formula and impact	**High**	20	Formula compliance and impact on ISB / non ISB
Irregularity Investigations		35	To be determined as appropriate
Provision of advice and liaison with department		30	
Schools			
Audit of 60 schools	**Medium**	370	Review range of factors relating to School Budget Share
Total days		**602**	

Adult Social Care, Health and Public Protection

Area for audit	Risk assessment	Days planned	Likely scope
Personal Care and Support – Younger Adults			
Day Care Providers	**High**	15	Review of risk and Internal Control
Mental Health Services	**High**	15	Review Implementation of new arrangements
i-Work Team	**High**	10	Follow up of recommendations
Personal Care and Support – Older Adults			
Home Care Providers	**High**	15	Review of risk and Internal Control
Equipment, Aids and Adaptations	**Medium**	15	Review of risk and Internal Control
Promoting Independence and Public Protection			
Services to Self-Funders	**Medium**	15	Effectiveness of support and consequential risk
Reablement Savings	**Medium**	10	Currently in progress
Registration Services	**Medium**	8	Currently in progress
Joint Commissioning, Quality and Business Change			
Home Care Commissioning	**High**	15	Review of risk and Internal Control
Financial Assessments and Service User Contributions	**High**	15	Review of risk and Internal Control
Safeguarding	**Medium**	25	Review of Governance, risk management and Peer Review implementation
Meals at Home Income	**High**	5	Review of risk and Internal Control
Meals at Home Income follow up	**High**	10	Follow up of recommendations
Other Work			
Future Demand and Costs	**High**	20	Planning for demographic challenge
Monitoring of Direct Payments	**High**	15	Currently underway – follow up may be required
Irregularity Investigations		35	To be determined as appropriate
Provision of advice and liaison with department		30	
Total days		**273**	

Environment and Resources

Area for audit	Risk assessment	Days planned	Likely scope
Highways			
Traffic Management- Street Lighting	**High**	15	Review part-night lighting
Highway Services	**Medium**	15	Review of fleet maintenance
Flood Risk Management	**Medium**	15	Implementation of new responsibilities
Rechargeable Works Orders	**High**	10	Follow up recommendations
Civil Parking Enforcement	**High**	3	Completion of 2011/12 audit
Finance			
Procurement	**High**	30	Review category mgmt, procurement processing and local sourcing
Pension Fund Management	**High**	20	Governance, policy, monitoring and control
Budgetary control	**High**	15	Setting, monitoring and control
Transport, Property and Environment			
Building Maintenance	**High**	15	Review partnership work
Estate Management	**High**	20	Health and Safety compliance
Carbon Reduction	**Medium**	15	Review internal control
Bus Service Operators grant	**N/A**	2	Grant audit
School Meals Income	**High**	10	Follow up
Cleaning Service	**High**	10	Follow up
Concessionary Fares	**High**	5	Already underway
Cleaning Investigation	**High**	4	Already underway
Property Investigation	**High**	10	Already underway
ICT – Infrastructure			
Network Controls	**High**	15	LAN/WAN, voice, WiFi, external connections
Operating Systems – UNIX	**High**	15	Access, mtce and security
Database Management	**High**	15	Access and change control
Email access and use	**High**	15	Monitoring of use and filtering
Physical and Environmental controls	**High**	15	Accommodation of servers
Virtual Machine Environment	**High**	15	Security and licensing of virtual servers
ICT – Applications			
Government Connect	**Medium**	10	Review compliance with Government standards
Electronic Document Records Management System (EDRMS)	**High**	10	Advice to project team
Homecare	**High**	15	Review risk & internal control
Careworks	**High**	15	Review risk & internal control

Notts Transport System Mobile Phones Social Care Records Internet Service Delivery Active Directory	**Medium** **High** **High** **High** **High** **Medium**	15 10 10 4 8 7	Review risk & internal control Follow up Follow up Already underway Already underway Already underway
Other Work Irregularity Investigations Managed Audit work Liaison with other authorities Provision of advice and liaison with department		 25 15 12 30	 As required Work with External Audit Share experience / concerns
Total days		**490**	

<u>Policy Planning and Corporate Services</u>

Area for audit	**Risk assessment**	**Days planned**	**Likely scope**
HR and Customer Services BSC Payroll BSC Accounts Payable BSC Competency Centre BSC Accounts Receivable Recruitment Job Evaluation in Schools	 **High** **High** **High** **High** **High** **High**	 25 25 15 25 10 8	 Compliance with process maps As above Access approvals, monitoring and control Compliance with process maps Follow up Completion of 2011/12 audit
Assistant Chief Executive Improvement Programme Use of Consultants Corporate Governance Grant Aid Strategic Plan Improvement Programme	 **High** **High** **High** **High** **High** **High**	 15 10 15 5 4 4	 To be discussed Follow up To be discussed Already underway Already underway Already underway
Other Work Irregularity Investigations Provision of advice and liaison with department		 20 30	 As required
Total days		**211**	