Nottinghamshire County Council

Audit Committee

Date: Wednesday, 12 September 2012
Time: 14:00
Venue: County Hall
Address: County Hall, West Bridgford, Nottingham NG2 7QP

AGENDA

1	**Minutes 23 May2012** Details	3 - 6
2	**Apologies for Absence** Details	1-2
3	**Declarations of Interest** (a) Discloseable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	1-2
4	**External Audit - Annual Governance Report** Details	7 - 54
5	**Draft local audit bill consultation** Details	55 - 68
6	**Financial Regulation Waivers 2011 12** Details	69 - 78
7	**Unsatisfactory Follow-up Audit Report - Meals at Home Income** Details	79 - 82

8	**Exclusion of the Public**	**1-2**

The Committee will be invited to resolve:-

"That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in paragraph 3 of the Local Government (Access to Information) (Variation) Order 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

Note

If this is agreed, the public will have to leave the meeting during consideration of the following items.

EXEMPT INFORMATION ITEMS

9	**Investigation Change of Supplier Bank Details** Details	**1-2**
10	**Appendix A and B - Meals at Home Income follow up Audit** Details	**1-2**

Nottinghamshire County Council

minutes

Meeting	AUDIT COMMITTEE
Date	23 May 2012 (commencing at 2.00 pm)

membership
Persons absent are marked with `A'

COUNCILLORS

Sheila Place (Chairman)
Mike Quigley MBE (Vice-Chairman)

	Chris Barnfather		Eric Kerry
A	John Clarke		Richard Jackson
	Mrs Kay Cutts	A	Ken Rigby
	Steve Garner		

OFFICERS IN ATTENDANCE

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

ALSO IN ATTENDANCE

Councillor Reg Adair

Mike Norman	-	Audit Commission
Ian Sadd	-	Audit Commission

APPOINTMENT OF CHAIR AND VICE-CHAIR

It was noted that at full Council on 17 May 2012 Councillor Sheila Place was appointed Chairman and Councillor Mike Quigley as Vice –Chairman of the Audit Committee for the ensuing year.

MEMBERSHIP

The membership of the Committee was noted as above.

MINUTES

The minutes of the last meeting of the Committee held on 14 March 2012, having been circulated, were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

Apologies for absence were received from:-

Councillor John Clarke	-	Other County Council Business
Councillor Ken Rigby	-	Other County Council Business

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

TERMS OF REFERENCE

RESOLVED 2012/006

That the report be noted.

STATEMENT OF ACCOUNTS 2011/12 – ACCOUNTING POLICIES

Mr Stevenson introduced the report and highlighted to members that there were two new requirements regarding the accounting policies, these are The Carbon Reduction Scheme and Heritage Assets.

RESOLVED 2012/007

That the changes to the Authority's accounting policies be approved.

AUDIT COMMISSION – AUDIT PLANS 2011/12 PROGRESS REPORT

Mr Norman introduced the report and highlighted the area of significant risk being the introduction of the County Council's Business Management System this could lead to the delay in accounts' production.

RESOLVED 2012/008

That the External Auditor's progress on the Audit Plan for 2011/12 be noted.

AUDIT COMMISSION – AUDIT FEES 2012/13

Mr Norman informed members that the Audit Fees for both the Council and Pensions Scheme had been reduced by 40%. He also informed Committee that the Audit Plan will be presented by KPMG in the future.

RESOLVED 2012/009

That the Audit Fee levels for 2012/13 be noted.

INTERNAL AUDIT ANNUAL REPORT – 2011/12

Mr Bailey introduced the report and informed members that over all the Council was operating adequately.

RESOLVED 2012/010

That the Internal Audit Report 2011/12 be noted.

DRAFT ANNUAL GOVERNANCE STATEMENT 2011/12

RESOLVED 2012/011

That the Annual Governance Statement 2011/12 be endorsed

INTERNAL AUDIT PLAN 2012/13

RESOLVED 2012/012

That the report be noted.

The meeting closed at 2.25 pm.

CHAIR

Nottinghamshire County Council

Report to AUDIT COMMITTEE

12 September 2012

Agenda Item: 4

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

EXTERNAL AUDIT – ANNUAL GOVERNANCE REPORTS

Purpose of the Report

1. To receive for information, and comment upon, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval on 20th September 2012.

Information and Advice

2. The External Auditors have now substantially completed their audit work on the Authority's financial statements for 2011/12 and propose to issue unqualified audit opinions on the County Council and Pension Funds' accounts, subject to satisfactory clearance of the remaining issues. In the course of their work the External Auditors have identified a number of matters, detailed in the attached reports, which they wish to bring to the Audit Committee and Full Council's attention. The District Auditor, Ian Sadd, and the Audit Manager, Mike Norman, will be in attendance at the meeting to present the report and to respond to Members' queries.

3. As part of the Audit of Financial Statements process, I am required to prepare a Letter of Representation to the District Auditor and my proposed Letter is attached for Members' agreement.

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 of the Audit Committee note the External Auditor's Annual Governance Reports on the County Council and Pension Fund accounts:

a) note the matters raised in the report before the financial statements are re-signed by the Section 151 Officer
b) note the unadjusted misstatements set out in Appendix 2 and the reasons for not correcting these misstatements as set out in the attached Letter of Representation

c) note the Letter of Representation attached to this report

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
Nigel Stevenson
Group Manager – Financial Strategy & Compliance

Constitutional Comments

6. Audit Committee is responsible for overseeing the external auditor's annual audit of the accounts and is the appropriate body to consider the content of this report. (SB 04/09/2012)

Financial Comments

7. The financial implications are as stated in the report. (NS 24/08/2012)

Background Papers

Nil

Electoral Division(s) and Member(s) Affected

Not applicable

Annual governance report

Nottinghamshire County Council

Audit 2011/12

audit commission

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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Status of the Audit and this Report

The Council's 2011/12 financial statements and this report are to be initially considered by the Audit Committee on 12 September 2012, with the statements formally approved by the County Council at its 20 September 2012 meeting. The statements include both the County Council and Pension Fund accounts. My audits of the two sets of accounts are substantially complete. There are some outstanding issues relating to the County Council accounts which are expected to be resolved by the date of the County Council meeting. I will update the Audit Committee at its meeting on the progress made in relation to the remaining audit enquiries.

Financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the Council's financial statements.

Value for money (VFM)

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I expect to conclude that there are no matters arising from my VFM work that I need to report.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit Committee and the County Council to:

- take note of the unadjusted items to the financial statements included in this report (appendiix 2) and;
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

The outstanding matters at the end of August 2012 include:

- further testing and information required from officers to help evaluate non material errors identified during the audit regarding the year-end bank reconciliation;
- completing the remaining audit work on the Cash Flow Statement and a small number of disclosure notes;
- checking the agreed non-material amendments to disclosure notes, to correct minor errors or to reflect changes to the accounting guidance;
- other audit work on the routine closure steps.

We expect to complete the remaining work and obtain from officers the further information and explanations required by the date of the Audit Committee meeting. I will update the Audit Committee at its 12 September 2012 meeting on the progress made in relation to the remaining audit queries.

Errors in the financial statements

The notes to the financial statements have been amended to correct a relatively small number of errors and to more clearly meet the requirements of this year's Code of Practice on Local Authority Accounting. There are no specific issues in relation to these amendments that I need to ring to your attention in this report.

I have reported at Appendix 2 errors identified in the course of my audit work to date in the presentation of the year-end bank reconciliation within the financial statements, which management do not wish to correct. I am carrying out further work on these items and I will update the Audit Committee at its 12 September 2012 on this and any additional issues arising from the remaining audit queries.

Significant risks and my findings

I reported to you in my February 2012 Audit Plan a significant risk that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against this risk.

Table 1: **Risks and findings**

Risk	Finding
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. I plan to:	
Document the new systems and changes in interfaces, and identify and test key controls.	I have documented the systems and tested the key controls.
Liaise with Internal Audit and where possible rely on their testing of data transferred and interfaces, accounts payable and receivable and payroll.	I have reviewed Internal Audit's work and, in line with auditing standards, re-performed elements of their testing. I 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. I have not identified any material errors in the course of that work
Rely on Internal Audit's overview and testing of the overall BMS programme.	I have reviewed and been able to rely upon Internal Audit's work.
Document the new General Ledger system and test controls as appropriate.	I have documented the system and tested the key controls. I have carried out additional substantive testing on the bank reconciliation process and any significant year end correction/adjustment journals. I have reported non-material errors in the bank reconciliation at Appendix 2 and I am carrying out further substantive testing.
Test 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.	I have completed the planned work on opening balances and transferred data, and tested the material reconciliations as part of the final accounts audit. I have not identified any material errors in the course of that work.
Substantively test the SAP Chart of Organisation and classification of income and expenditure transactions.	I have completed the work planned and carried out additional substantive testing as part of the of the final accounts audit. I have not identified any material errors in the course of that work.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not already aware.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

There are no additional issues that I need to bring to your attention in this report in relation to these matters.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts (WGA) return. As at 31 August 2012 I have not completed the procedures specified by the National Audit Office. The deadline for issuing my assurance statement is 5 October 2012.

Audit Certificate

The outstanding elector's objection to the 2008/09 accounts is expected to have been determined, and I expect to be able to issue the 2008/09 to 2010/11 Audit Certificates, which formally close those years' audits, by 30 September 2012. There are two items of 2011/12 audit work which need to be completed before I am able to issue the Audit Certificate for this year, and these set out in my draft Audit Report at Appendix 1. I will amend my Audit Report to include the Audit Certificate if the audit opinion on the accounts in the Pension Fund Annual Report and WGA assurance statement can be given before 30 September 2012.

Letter of Representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. The proposed Letter of Representation is included in Appendix 4 to this report and is to be agreed at the Council's meeting on 20 September 2012.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

In the course of the year I have also considered, where they relate to my audit responsibilities, matters raised with me by officers and members of the public. These included the Council's planned sale of its care homes, and the financial support towards Community Transport. I am satisfied that these matters do not adversely impact on my value for money conclusion or audit opinion on your financial statements, and there are no specific issues I need to bring to your attention in this report.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The medium term financial strategy has been informed by widespread consultation and analysis over recent years and it shapes the Improvement Programme to deliver significant financial savings over the period of the plan. The steps taken to maintain the Council's financial standing have been effective. The Council reported a net saving against portfolio budgets of £34.3m in 2011/12 and increased the General Fund balance by £1.6 million. It has set aside substantial sums to support service restructuring plans and capital projects. The Council has implemented new systems and processes to improve financial monitoring and internal reporting. The arrangements have become more embedded during the year and the Council is working hard to secure the planned benefits from its investment. The year end financial reporting arrangements are well established.

Criteria	Findings
	The Council continues to manage risk effectively and the arrangements are embedded. Internal Audit found that internal controls in most of the Council's systems and procedures continue to operate satisfactorily.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	The Improvement Programme is widely understood and comprehensive. The Improvement Programme governance arrangements are strong and good progress has been made in delivering the Programme. The Programme has been informed by good analysis of budget pressures and the impact of increasing demand. Significant savings have also been achieved in year. Comparative and benchmarking information is being more widely used. The Council has improved its understanding and control of its costs and is delivering efficiency savings.

Fees

I reported my planned audit fee in the February 2012 Audit Plan.

I expect to complete the 2011/12 audit within the planned fee of £218,250.

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOTTINGHAMSHIRE COUNTY COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Nottinghamshire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Nottinghamshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Service Director (Finance and Procurement) and auditor

As explained more fully in the Statement of the Service Director (Finance and Procurement) Responsibilities, the Service Director (Finance and Procurement) is responsible for the preparation of the Authority's Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Service Director (Finance and Procurement); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Nottinghamshire County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the Nottinghamshire County Council Pension Fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The

financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Nottinghamshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Service Director (Finance and Procurement) and auditor

As explained more fully in the Statement of the Service Director (Finance and Procurement) Responsibilities, the Service Director (Finance and Procurement) is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Service Director (Finance and Procurement); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Nottinghamshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

The audit cannot be concluded yet for two reasons:

- I am required to give an opinion on the financial statements of the pension fund included in the Nottinghamshire County Council Pension Fund Annual Report. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements.
- I have not completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. The deadline for issuing my assurance statement is 5 October 2012.

I am satisfied that these matters do not have a material effect on the 2011/12 financial statements.

Ian Sadd
Officer of the Audit Commission
Unit 10
Whitwick Business Centre
Whitwick Business Park
Stenson Road
Coalville
Leics
LE67 4JP

September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit work completed to date which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Cash	The balance sheet cash value does not take account of year-end reconciling items to the cash book (such as un-presented cheques and BACS payments in transit), which have instead been included within creditors. This is a change from the previous year's practice.				11,716
Creditors				11,716	

I am carrying out further substantive testing on other year end reconciling items, and I need to complete my audit of the Cash Flow Statement and a small number of the financial statements' disclosure notes. I will update the Audit Committee at its meeting 13 September 2012 if any further errors are identified from the remaining audit work which I need to bring to your attention.

Appendix 3 – Draft letter of management representation

Nottinghamshire County Council and Nottinghamshire County Council Pension Fund - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012. All representations cover the Council's accounts and the Nottinghamshire County Council Pension Fund Accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the County Council and Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the County Council and Pension Fund have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The County Council and Pension Fund have complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and if material accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of County Council and Pension Fund related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All significant events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

None requested at this stage.

Signed on behalf of Nottinghamshire County Council.

I confirm that this letter has been discussed and agreed by the Audit Committee on 12 September 2012 and the Council on 20 September 2012.

Signed

Name: Paul Simpson

Position: Service Director (Finance and Procurement)

Date: 20 September 2012

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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September 2012

Annual governance report

Nottinghamshire County Council Pension Fund

Audit 2011/12

audit commission

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Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

Status of the Audit and this Report

The Council's 2011/12 Statement of Accounts, which include the Pension Fund financial statements, and this report are to be initially considered by the Audit Committee on 12 September 2012, with the statements formally approved by the County Council at its 20 September 2012 meeting. My audits of the two sets of accounts are substantially complete. There are some outstanding issues relating to the County Council accounts which are expected to be resolved by the date of the County Council meeting. I will update the Audit Committee at its meeting on the progress made in relation to the remaining audit enquiries.

Pension Fund financial statements

As at 30 August 2012 I expect to issue an unqualified audit opinion on the Pension Fund financial statements included in the Authority's statement of accounts.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2011/12.

I ask the Audit Committee to:

- take note of the matters included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Pension Fund before I issue my opinion.

Financial statements

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the Pension Fund financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements included within the Authority's Statement of Accounts. Appendix 1 contains a copy of my draft audit report.

Amendments to the draft financial statements

I have not identified any non-trivial errors in the draft Statement of Accounts identified in the course of my audit work. There are no agreed amendments to the draft financial statements that I need to bring to your attention.

Specific risks and my findings

I reported to you in my February 2012 Audit Plan a specific risks that I had identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against this risk.

Table 1: **Risks and findings**

Risk	Finding
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.	In conjunction with the audit of the County Council, and in liaison with Internal Audit, we documented the new systems and changes in interfaces, and tested key controls. We documented and tested the key controls within the new General Ledger system. We checked the opening balances on the SAP General Ledger and transferred data, and tested material reconciliations to the General Ledger at the year end. We did not identify any material errors from the testing we carried out.

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process, including the following.

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated to those charged with governance (for example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions); and
- Other audit matters of governance interest.

I have one specific matter I wish to report in relation to these topics.

Financial Instruments Disclosures

The Code of Practice on Local Authority Accounting requires extensive disclosures on Council and Pension Fund financial instruments. The requirements include disclosure of the nature and extent of risks arising from financial instruments to which the pension fund was exposed and how the pension fund administering authority manages those risks. The financial instruments disclosure note within the Pension Fund financial statements does not include all the information required under the Code regarding the risks faced, the extent to which Pension Fund is exposed to those risks and the methods used to determining the Fund's risk exposure. The disclosure note does refer to other documents which include more information on the risks to the achievement of the Fund's aims. The note itself does not currently however meet the full requirements of the Code and the Council should include the necessary disclosures in future year's financial statements.

Pension Fund Annual Report

The Pension Fund has not yet prepared its Annual Report. As a result I have not yet reviewed the financial statements contained within the Annual Report and am not able to report on them. The Pension Fund plans to produce its Annual Report by 30 September 2012 and I anticipate reporting on the financial statements included in the Annual Report shortly after that date.

Fees

I reported my planned audit fee in the February 2012 Audit Plan.

I expect to complete the audit within the planned fee of £44,460.

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOTTINGHAMSHIRE COUNTY COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Nottinghamshire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Nottinghamshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Service Director (Finance and Procurement) and auditor

As explained more fully in the Statement of the Service Director (Finance and Procurement) Responsibilities, the Service Director (Finance and Procurement) is responsible for the preparation of the Authority's Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Service Director (Finance and Procurement); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Nottinghamshire County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the Nottinghamshire County Council Pension Fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The

financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Nottinghamshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Service Director (Finance and Procurement) and auditor

As explained more fully in the Statement of the Service Director (Finance and Procurement) Responsibilities, the Service Director (Finance and Procurement) is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Service Director (Finance and Procurement); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Nottinghamshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

The audit cannot be concluded yet for two reasons:

- I am required to give an opinion on the financial statements of the pension fund included in the Nottinghamshire County Council Pension Fund Annual Report of. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements.
- I have not completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. The deadline for issuing my assurance statement is 5 October 2012.

I am satisfied that these matters do not have a material effect on the 2011/12 financial statements.

Ian Sadd
Officer of the Audit Commission
Unit 10
Whitwick Business Centre
Whitwick Business Park
Stenson Road
Coalville
Leics
LE67 4JP

September 2012

Appendix 2 – Draft letter of management representation

Nottinghamshire County Council and Nottinghamshire County Council Pension Fund - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012. All representations cover the Council's accounts and the Nottinghamshire County Council Pension Fund Accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the County Council and Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the County Council and Pension Fund have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The County Council and Pension Fund have complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and if material accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of County Council and Pension Fund related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All significant events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

None requested at this stage

Signed on behalf of Nottinghamshire County Council.

I confirm that this letter has been discussed and agreed by the Audit Committee on 12 September 2012 and the Council on 20 September 2012.

Signed

Name: Paul Simpson

Position: Service Director (Finance and Procurement)

Date: 20 September 2012

Appendix 3 – Glossary

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

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The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

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The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority and the Audit Committee.

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- any third party.

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September 2012

Nottinghamshire County Council

Report to Audit Committee

12 September 2012

Agenda Item:

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT

DRAFT LOCAL AUDIT BILL 2012 - CONSULTATION

Purpose of the Report

1. To inform Members of the publication of the Draft Local Audit Bill on 6th July 2012 for consultation.

Information and Advice

2. The draft bill was issued on 6th July 2012 and runs to 213 pages. The Department for Communities and Local Government (DCLG) are consulting on the bill and asked for responses by the 31st August 2012. Unfortunately, it was not possible to bring the consultation to the Audit Committee before the end of August 2012.

3. A response was drafted by the Head of Internal Audit on behalf of the Authority and copied to the Leader, and the Chair and Vice Chair of the Finance and Property and Audit Committees for comment. A copy of the response is attached as Appendix A.

4. The draft bill provides for the following changes:-

   - Repeal of the legislation establishing the Audit Commission and abolition of the Audit Commission.
   - A requirement on local public bodies to appoint an external, independent auditor on the advice of an Independent Auditor Panel.
   - Creation of a new regulatory framework for local public audit managed by the Financial Reporting Council and professional accountancy bodies.
   - Transfer of responsibility for setting the Code of Audit Practice and supporting guidance to the National Audit Office
   - Provide powers to the National Audit Office to undertake studies of themed value for money relating to local government.
   - Powers for the Secretary of State to direct a person or persons to undertake an inspection into the effectiveness of a council's corporate governance arrangements.

5. The draft bill reflects the proposals outlined in the 2011 Future of Local Public Audit consultation, which was discussed by the Audit Committee on 17th May 2011 and 12th September 2011.

6. The timetable below sets out the next steps for the draft bill.
   - Autumn 2012: pre-legislative scrutiny
   - 2013: Bill introduced to parliament
   - 2014: Royal Assent subject to parliamentary approval
   - 2015: Closure of the Audit Commission
   - April 2017: Earliest point at which auditors can be appointed directly by councils

Other Options Considered

7. This report is for information and noting only.

Reason/s for Recommendation/s

8. To provide information to Members on the Draft Local Audit Bill and the County Council's response to the consultation.

Statutory and Policy Implications

9. 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 proposals outlined in the Draft Local Audit Bill and the Council's response to the consultation shown in Appendix A.

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 20/8/12)

The Authority's audit fee has been set at £130,950 for 2012/13, a saving of over £87,000 compared to 2011/12. It is anticipated that under the new arrangements, these savings will continue to be achieved. There will be costs associated with establishing an auditor panel from 2014 should the final Bill require this.

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:

Draft Local Audit Bill, Department for Communities and Local Government, July 2012

Briefing – Draft Local Audit Bill 2012, County Councils Network

Electoral Division(s) and Member(s) Affected
All

Communities and Local Government

Draft Local Audit Bill

Consultation response form

We are seeking your views on the following questions on the Government's draft Local Audit Bill and proposals for the audit of smaller local public bodies.

If possible, we would be grateful if you could please respond by email.

Please email: fola@communities.gsi.gov.uk

Alternatively, we would be happy to receive responses by post. Please write to:

Future of Local Audit
Department for Communities and Local Government
3/J5 Eland House
Bressenden Place
SW1E 5DU

The deadline for submissions is 5pm on 31 August 2012.

(a) About you

(i) Your details

Name:	Paul Simpson
Position:	Director of Finance and Procurement
Name of organisation (if applicable):	Nottinghamshire County Council
Address:	County Hall, West Bridgford, Nottingham, Nottinghamshire NG2 7QP
Email:	paul.simpson@nottscc.gov.uk
Telephone number:	0115 977 3441

(ii) Are the views expressed on this consultation an official response from the organisation you represent or your own personal views?

Organisational response	☒
Personal views	☐

(iii) Please tick the *one* box which best describes you or your organisation:

Upper tier local authorities	☒	
Lower tier local authorities	☐	
Parish and town councils	☐	
Audit and accountancy firms	☐	
Professional auditing and accountancy firms	☐	
Other audited public body (e.g. fire authority, police authority, national park authority, pension authority - please state which)	☐	
Other (please state)	☐	

(iv) Do your views or experiences mainly relate to a particular type of geographical location?

City	☐	
London	☐	
Urban	☐	
Suburban	☐	
Rural	☐	
Other (please comment)	☒	County

(vi) Would you be happy for us to contact you again in relation to this consultation?

Yes	☒

No	☐

(b) Consultation questions

Draft Local Audit Bill:

Part 1 - Abolition of existing audit regime

Q1. Do you have any comments on the clauses in Part 1 or Schedule 1?

Comments (please state clearly which clause you are referring to):

The County Council supports the initiative to reduce the costs of external audit and welcomes the opportunity to appoint its own auditors.

Part 2 - Basic requirements and concepts

Q2. Do you have any comments on the clauses in Part 2 or Schedule 2?

Comments (please state clearly which clause you are referring to):

None

Part 3 - Appointment etc of auditors

Q3. Do you have any comments on the clauses in Part 3?

Comments (please state clearly which clause you are referring to):

The appointment of an independent auditor panel is considered to be an unnecessary bureaucracy. The requirement for independence is a clear duty on the appointed auditor and is implicit and explicit in the culture and legislation surrounding auditing. This proposal also undermines the role of democratically elected members, who will receive the advice of the Section 151 officer on the appointment of a suitably qualified external auditor.

Q4. Do the clauses in Part 3 strike the right balance between ensuring independence in the audit process and minimising any burden on local bodies?

Yes	☐
No	☒

Further comments:

The imposition of an independent auditor panel undermines the role of democratically elected members.

Q5. Does Clause 11 provide sufficient flexibility to local bodies to set up joint panel arrangements and/ or put in place other arrangements to suit local circumstances?

Yes	☒
No	☐

Further comments:

Q6. Does the draft Bill strike the right balance in terms of prescription and guidance on the role of auditor panels?

Yes	☐
No	☒

Further comments:

The powers proposed for the auditor panel appear to be excessive. It is difficult to foresee any circumstances where the panel would add any value to the Authority.

Q7. Do you have any comments on the proposals set out in paragraphs 26-34 of the consultation document on removal and resignation?

Comments:

None

Part 4 - Eligibility and regulation of auditors

Q8. Do you have any comments on the clauses in Part 4 or Schedules 3 and 4?

Comments (please state clearly which clauses you are referring to):

None

Q9. Do you agree with the proposed definition of connected entities in clause 20?

Yes	☒
No	☐

Further comments:

Q10. Do you have any views on how major audits should be defined in regulations?

Comments:

None

Part 5 - Conduct of audit

Q11. Do you have any comments on the clauses in Part 5?

Comments (please state clearly which clauses you are referring to):

None

Q12. Do you agree that public interest reports issued on connected entities should be considered by their 'parent' local body?

Yes	☒
No	☐

Further comments:

Part 6 - Data Matching

Q13. Do you have any comments on the clauses in Part 6?

Comments (please state clearly which clauses you are referring to):

None

Q14. Do you have any views on the new owner(s) of the National Fraud Initiative?

Comments:

Suggest National Fraud Authority would be the best owner.

Part 7 - Inspections, studies and information

Q15. Do you have any comments on the powers provided to the Comptroller and Auditor General to undertake studies and access information within clause 94?

Comments:

The Comptroller and Auditor General is the right person to be responsible for accessing information and undertaking national studies. We would however express caution about the any move for the National Audit Office to undertake a "regulatory" role of local authorities.

Q16. Do you think that the National Audit Office should be able to undertake thematic value for money studies regarding all sectors whose bodies are subject to audit under this draft Bill?

Yes	☒
No	☐

Further Comments:

See comments in answer to question 15.

Q17. Do you have any comments on the other clauses in Part 7 or Schedule 5?

Comments

None

Impact Assessment:

Q18. Does the impact assessment identify the main drivers on fees?

Yes	☒
No	☐

Are there any other drivers on fees?:

Q19. Are the estimates of local bodies' compliance costs realistic?

Yes	☒
No	☐

Further comments:

Q20. Are the estimates of the costs and benefits to businesses realistic?

Yes	☒
No	☐

Further comments:

Proposals for Smaller Bodies

Q21. Do you agree that the threshold below which smaller local public bodies should not be subject to automatic external audit should be £25,000?

Yes	☒
No	☐

Further comments:

Q22. Are the additional transparency requirements we have proposed for those bodies who will not be subject to external audit robust enough to ensure that they will be accountable to the electorate?

Yes	☒
No	☐

Further comments:

Q23. Are these transparency requirements proportionate to the low levels of public money these bodies are responsible for?

Yes	☒
No	☐

What steps will smaller bodies need to take in complying with these new requirements? :

Q24. Do you agree that our proposals for the eligibility of auditors of smaller local public bodies will ensure that they have the requisite expertise to undertake limited assurance audits?

Yes	☒
No	☐

Further comments:

Q25. Are our proposals for the regulatory framework for the audit of smaller bodies proportionate?

Yes	☒
No	☐

Further comments:

Q26. Do these proposals provide a proportionate and sufficiently flexible mechanism for procuring and appointing audit services to smaller local public bodies?

Yes	☒
No	☐

Further comments:

(c) Additional questions

Do you have any other comments you wish to make?

Broadly we welcome the proposed changes to the public audit regime, in particular the ability to appoint our own external auditor. However, as stated we do not think the specific proposal to introduce a local independent auditor panel is helpful or indeed necessary for the reasons set out.

The National Audit Office is rightly the new owner of the Code of Audit Practice and we believe it has a role to play in carrying out national value for money studies assuming these are measured and done in conjunction with local government, ie in partnership, and not "done to it". We would however have concerns about any expansion in the National Audit Office's remit beyond this.

END

Nottinghamshire County Council

Report to AUDIT COMMITTEE

12 September 2012

Agenda Item:

REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT

FINANCIAL REGULATIONS WAIVERS 2011/12

Purpose of the Report

1. Article 13 of the Council's Constitution contains a number of urgency procedures to enable decisions to be taken quickly in appropriate circumstances. The Constitution requires that the use of these procedures be reported to specified Committees and to the Council. This report fulfils the reporting requirement in respect of Financial Regulations Waivers.

Information and Advice

2. There are two relevant urgency procedures relating to the Financial Regulations which are detailed below:-

i) Exceptions to the Requirement to Seek Quotations and Tenders.

3. Section 9.3 of the Financial Regulations contains rules for the selection of contractors, including the number of quotations and tenders that must be sought. Section 9.5.1.1 specifies five categories of exception where the rules for obtaining quotations and tenders can be suspended. These are set out below:-

(1) the work to be executed or the goods or materials to be supplied constitute the first valid extension of an existing contract, which has been procured through a Best Value exercise, provided that such an extension has received the necessary budget approval; and does not exceed the value of the original contract or the next value threshold. Contracts must not be extended where the total value will exceed the EU threshold.

(2) the Council is buying from a contract entered into following a proper tendering exercise by a consortium, collaboration, or similar central procurement body, of which the Council is a member and which the Council is authorised to buy from or through.

(3) the work to be executed or the goods or materials to be supplied consist of repairs to, or parts for, existing proprietary machinery, where such repairs or parts are specific to that machinery OR upgrades to existing software packages.

(4) works, supplies or services are urgently needed for the immediate protection of life or property, or to maintain the immediate functioning of a public service for which the Council is responsible. In such cases the contract must only last as long as is reasonably necessary to deal with the specific emergency.

(5) the Corporate Director decides that special circumstances make it appropriate and beneficial to negotiate with a single firm or that a single tender be invited. This will include occasions when it can be established that there is only a single source available or where the Corporate Director or his/her designate can demonstrate that best value for the Authority can be better achieved by not tendering.

4. Exceptions (1) to (4) above, and those in (5) up to £25,000, can be approved by the relevant department's Finance Group Manager.

5. During 2011/12, the total number of exceptions granted by the Finance Group Managers was as follows. Comparative figures for the previous year are also provided, although a direct comparison is difficult because a new departmental structure was introduced from 2011/12.

2011/12	
Environment & Resources	11
Adult Social Care, Health & Public Protection	9
Children, Families & Cultural Services	6
Policy Planning & Corporate Services	5
Authority Total	**31**

2010/11	
Communities	27
Adult Social Care & Health	8
Children & Young People	11
Corporate Services	5
Chief Executive's	1
Authority Total	**52**

6. The number of waivers has continued to fall following a peak of 103 in 2008/09.

7. In all four departments, most waivers were for specialist knowledge and skills.

8. The largest change was the decrease in waivers in the former Communities department. The decrease was mainly in two areas - equipment & works, and street furniture to match existing schemes. This was partially offset by an increase in waivers for work requiring specialist knowledge and skills, mainly related to flooding and ecological surveys (the Communities department no longer exists and this increase shows in the Environment & Resources department in the above table).

9. The decrease in waivers in the Children, Families & Cultural Services department mainly relates to fewer waivers for specialist knowledge and skills, and specialist publications.

10. The number of waivers in the Adult Social Care, Health & Public Protection department is similar to last year. Last year all were for work requiring specialist knowledge and skills, as were most this year, although two were for the purchase of support to individuals with learning disabilities and mental health problems.

11. The number of waivers in the Policy Planning & Corporate Services department is similar to last year, although there were fewer for IT-related purchases.

12. Appendix 1 analyses these exceptions by the five categories described in paragraph 3 above.

13. For exception category (5), where the expected expenditure is over £25,000, prior approval was also required from the Service Director, Finance & Procurement (represented by the Head of Internal Audit) and the Group Manager for Legal Services.

14. During 2011/12, ten such requests were processed with the following outcomes:-

Requests Received in 2011/12	
Approved	8
Not approved	1
Advice given that a waiver was not required	1

15. This is fewer than in 2010/11, when 18 waiver requests were received, 10 of which were approved. Details of the approved requests are summarised in Appendix 2. Details of the other two are summarised in Appendix 3.

ii) Variation, Waiver or Suspension of Financial Regulations.

16. Financial Regulation 1.7 allows the Service Director, Finance & Procurement, after consulting with the Group Manager for Legal Services, to vary, waive or suspend any Regulation. This applies to any Regulation and is not limited to the selection of contractors which is the main focus of this report. During 2011/12, there was one such request, which was not approved, and is summarised in Appendix 4. There was one such request in 2010/11, which was approved.

Statutory and Policy Implications

17. 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. Because this report contains no proposals for action it has no material statutory or policy implications.

RECOMMENDATION

18. That the report be noted.

Paul Simpson
Service Director (Finance and Procurement)

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

Constitutional Comments

Financial Comments

Background Papers
None.

Electoral Divisions and Members Affected
All.

Appendix 1

Exceptions to the requirement to seek quotations and tenders for the procurement of goods and services that were approved by the Finance Group Managers during 2011/12. – Financial Regulation 9.5.1.1.1 to 9.5.1.1.5)**.**

	(1)	(2)	(3)	(4)	(5) up to £25k	Total (1) - (5)
Environment & Resources	0	3	3	0	5	11
Adult Social Care, Health & Public Protection	0	1	1	0	7	9
Children, Families & Cultural Services	1	0	0	0	5	6
Policy Planning & Corporate Services	3	0	1	0	1	5
Authority Total	**4**	**4**	**5**	**0**	**18**	**31**

9.5.2.1 **Allowed Exceptions**

(1) the work to be executed or the goods or materials to be supplied constitute the first valid extension of an existing contract, which has been procured through a Best Value exercise, provided that such an extension has received the necessary budget approval; and does not exceed the value of the original contract or the next value threshold. Contracts must not be extended where the total value will exceed the EU threshold.

(2) the Council is buying from a contract entered into following a proper tendering exercise by a consortium, collaboration, or similar central procurement body, of which the Council is a member and which the Council is authorised to buy from or through.

(3) the work to be executed or the goods or materials to be supplied consist of repairs to, or parts for, existing proprietary machinery, where such repairs or parts are specific to that machinery OR upgrades to existing software packages.

(4) works, supplies or services are urgently needed for the immediate protection of life or property, or to maintain the immediate functioning of a public service for which the Council is responsible. In such cases the contract must only last as long as is reasonably necessary to deal with the specific emergency.

(5) the Corporate Director decides that special circumstances make it appropriate and beneficial to negotiate with a single firm or that a single tender be invited. This will include occasions when it can be established that there is only a single source available

or where the Corporate Director or his/her designate can demonstrate that best value for the Authority can be better achieved by not tendering.

Appendix 2

Exceptions to the requirement to seek quotations and tenders for the procurement of goods and services that were approved by the Service Director, Finance & Procurement and the Group Manager for Legal Services during 2011/12 – in descending value order. (Financial Regulation 9.5.1.1.5, where the expected expenditure is over £25,000).

Waiver Ref	Requesting Department	Value	Description of Contract	Summary of Decision
931	PPCS	£225k	Carers Federation. Hosting the Local Involvement Network (LINk).	National government policy is to replace the LINks with Local HealthWatch. The existing contract for hosting the LINk had a clause for extension for up to 2 years, from 1 April 2011 to 31 March 2013. An extension for one year was recommended by the national Department for Health. The replacement of the LINks was delayed by another year, and we considered it appropriate to extend the contract for a further year to 31 March 2013.
923	E&R	£183k	Airedale Ltd. Air conditioning (cooling) equipment for data centre refurbishment.	This work was part of a contract which had been awarded competitively under the OJEU-advertised construction framework agreement. However, a subcontractor was unwilling to accept the risk of not being paid by the main contractor for manufacturing the equipment. The waiver allowed the council to contract directly with the subcontractor. Legal services provided advice to ensure that the main contractor remained responsible for the delivery of the equipment, and is financially stable.
929	ASCH&PP	£92k	Condico. Joint Improvement Partnership organisational redesign	The East Midland Joint Improvement Partnership (hosted by this Council) obtained funding from the East Midlands Regional Improvement & Efficiency Partnership (RIEP) for this work to be carried out at councils in the region beyond Nottinghamshire and Leicestershire where the consultant has already delivered significant cost savings and efficiencies. The business case approved by the RIEP clearly indicated that it was to be the work of the same consultant. It was almost certain that the funding would be forfeited if not used for this purpose.
922	PPCS	£70k	Ipsos MORI. Consultations.	Ipsos MORI was originally procured through an OJEU tendered contract which ended in July 2011. This waiver would allow the arrangements to

continue for 2 years, and use the existing panel of 8,000 residents, whilst the department considered carrying out these consultations in-house, instead of using an external agency.

Appendix 2 (continued)

Waiver Ref	Requesting Department	Value	Description of Contract	Summary of Decision
926	PPCS	£50k	Campbell Design Ltd: Bandstand at Kingsway Park, Kirkby in Ashfield.	We did not initially approve this waiver which was requested on the basis that the park users' representatives wanted this £50,000 bandstand to match existing installations in the park which cost £16,500 and were procured by another organisation through an unknown level of competition. At our request, the department obtained quotations from the two most suitable alternative providers, which demonstrated that the preferred bandstand was cheaper.
927	PPCS	£38k	Attain. Interim Team Manager, Procurement Centre.	Advertising (internal and external) had been unsuccessful. The post was to be re-advertised, and this proposal was to provide interim cover in the meantime, for 25 weeks. The preferred provider had been compared to a large number of alternatives and offered a competitive rate.
935	CFCS	£36k	Yellow Bus Events. Queens Diamond Jubilee event at National Water Sports Centre.	Contractors would require 12 weeks to plan and organise the event, and there was insufficient time for a competitive procurement exercise following the decision by the Council Leader to relocate this high profile (and relatively unique) event to the National Water Sports Centre. On this occasion the waiver was approved by the Service Director, Finance & Procurement (the section 151 officer) instead of the Head of Internal Audit.
930	PPCS	£30k	Local Futures. On-line data and mapping services.	This purchase was for data and mapping services that provide detailed knowledge of local areas to assist with research, decision making and reporting. Continuity of service with the current provider was the best value option currently available. The use of existing systems would allow cost savings in data loading and reporting, and the use of an already populated asset management map. The Corporate Procurement team reviewed the market and found no better alternative.

Appendix 3

Applications for waivers from seeking quotations and tenders which were not approved.

Waiver Ref	Requesting Department	Value	Description of Contract	Summary of Decision
	Not approved			
925	E&R	£30k	Savills. Auction for sale of County Council properties.	Before a waiver is submitted to internal audit and legal services, it requires the approval of the Head of Procurement. In this case, the Head of Procurement requested advice from legal services. The advice given was: (i) It appeared that the auction had already taken place. Waivers are not given restrospectively. (ii) We would have recommended that the department obtain evidence from the two most suitable other auctioneers, to support its view that their fees would have been higher. (iii) For the future, it would be appropriate to establish a tendered framework agreement for auctioneers (and estate agents) to be called off when required.
	Advice given that a waiver was not required			
921	CFCS	£165k	Balfour Beatty Workplace. Sensory & Wildlife Garden at St Giles School, Retford.	This work was to be awarded to an existing contractor. Our enquiries identified that a waiver was not required because the contractor had already carried out a sufficiently competitive process to find a subcontractor to do the work. Legal services provided advice on how to add this work into the existing contract.

Appendix 4

Applications for waivers of other financial regulations which were not approved (submitted under Financial Regulation 1.7).

Waiver Ref	Requesting Department	Value	Financial Regulation Waived	Details
	Not approved			
928	ASCH&PP	£750k	10.1.3	Advance payments for residential care Financial regulation 10.1.3 disallows payments in advance for goods and services. This was a request to waive this regulation to allow three suppliers of residential care to be paid 6 months in advance. Discounts averaging 3% (£46,000 a year) were offered on such advance payments. The waiver was refused because it placed at risk £750,000 of Council funds. We said that we would reconsider this if a stronger case was made, but the waiver was not resubmitted.

Nottinghamshire County Council

Report to Audit Committee

12 September 2012

Agenda Item: 7

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT

UNSATISFACTORY FOLLOW-UP AUDIT REPORT – MEALS AT HOME INCOME

Purpose of the Report

1. To inform Members of a follow up audit where the audit opinion remained "unsatisfactory" because insufficient progress had been made in implementing agreed Internal Audit recommendations.

Information and Advice

2. Internal Audit work is carried out in accordance with an agreed Annual Plan. On completion of the audit, the findings and recommendations are discussed with the relevant manager. A draft report is then issued to the manager, who is asked to provide a formal response to the recommendations. Once this response has been received, the final audit report is issued which includes the response to all recommendations and a date by which they will be implemented.

3. In each report, an opinion on the controls in place is included, and is one of three standard opinions, 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 to correct the weaknesses identified

4. If the audit opinion is sound or satisfactory, then the implementation of the recommendations concerned is followed up the next time the system is audited. However, if the audit opinion is unsatisfactory a follow up audit is carried out approximately six months after the final report has been issued, to determine whether the agreed recommendations have been implemented.

5. A follow up audit has recently been completed on the Meals at Home Income. The audit concluded that although progress had been made, there remained a number of areas where control was unsatisfactory. In particular we identified

delays in banking cash income and weaknesses in the holding of cash at the Warwickshire office. A copy of the report is attached as exempt Appendix A.

6. The Group Manager, Operational Policy and Performance in Adults Social Care, Health and Public Protection (ASCH&PP) has management responsibility for Meals at Home, and will be attending the meeting with the Service Director, ASCH&PP (Joint Commissioning, Quality and Business Change) to explain the issues involved in improving controls over income and the progress made since the report was issued in July 2012. A detailed report setting out the actions that have been put in place by the Service Director in response to the recommendations from the audit has been written and is attached as exempt Appendix B.

Other Options Considered

7. This report is for information and noting only.

Reason/s for Recommendation/s

8. To provide information to Members on the work required on the Meals at Home service to ensure that effective financial controls are in place.

Statutory and Policy Implications

9. 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 proposed actions to be taken to fully implement the outstanding audit recommendations.

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 15/8/12)

The work of Internal Audit is designed to ensure that efficient and effective systems are in place to minimise the risk of loss through error or fraud. This report highlights an area where further work is required to achieve these aims and reduce the risk of financial loss.

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