Nottinghamshire County Council

Audit Committee

Wednesday, 19 March 2014 at 10:30

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

AGENDA

1	Minutes 2 December 13	3 - 6
2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
4	Certification of Grants and Returns KPMG Annual Report 2012-13	7 - 18
5	KPMG - External Audit Plan 2013 - 14	19 - 44
6	Statement of Accounts 2013-14 Accounting Policies	45 - 64
7	Statement on Conformance with the Public Sector Internal Audit Standards	65 - 98
8	National Fraud Initiative 2012 - 13	99 - 102
9	Work Programme	103 - 106
10	Protecting the Public Purse - Fraud Briefing 2013 (Presentation)	

Notes

(1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.

(2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

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

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

(4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.

Nottinghamshire County Council

minutes

Meeting	AUDIT COMMITTEE
Date	2 December 2013 (commencing at 10.30am)

membership
Persons absent are marked with `A’

COUNCILLORS

Keith Walker (Chairman)
Sheila Place (Vice-Chairman)

Chris Barnfather
Joyce Bosnjak
John Clarke
John Handley
David Kirkham
Liz Plant
Ken Rigby

OFFICERS IN ATTENDANCE

Sarah Ashton	)	Policy, Planning and Corporate Services
John Bailey	)	
Steve Carter	)	Environment and Resources Department
Kevin McKay	)	

MINUTES OF THE LAST MEETING HELD ON 11 SEPTEMBER 2013

The minutes of the last meeting of the Committee held on 11 September 2013, having been circulated, were confirmed and signed by the Chair.

TEMPORARY MEMBERSHIP CHANGES

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

- Councillor Chris Barnfather replaced Councillor Reg Adair (for this meeting only).
- Councillor Liz Plant replaced Councillor Darrell Pulk (for this meeting only).

APOLOGIES FOR ABSENCE

None

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

INTERNAL AUDIT RISK ASSESSMENT

John Bailey (Head of Internal Audit) presented the Internal Audit Risk Assessment report outlining the background and processes followed in 2013/14 assessments.

RESOLVED 2013/19

That the Internal Audit Risk Assessment process for 2013/14 be noted.

INTERNAL AUDIT SIX MONTH PROGRESS REPORT

RESOLVED 2013/20

That the Internal Audit six month progress report from 1st April 2013 to 30th September 2013 be noted.

FINANCIAL REGULATION WAIVERS 2012/13

Steve Carter (Interim Procurement Group Manager) presented the Financial Regulation Waivers 2012/13 report explaining the procedures used to achieve Best Value for the Council within EU directives and UK law.

RESOLVED 2013/21

That the Financial Regulation Waivers 2012/13 be noted.

UNSATISFACTORY FOLLOW-UP AUDIT REPORT – CLEANING SERVICE

John Bailey (Head of Internal Audit) presented the Unsatisfactory Follow-up Audit report on cleaning services, confirming that a second follow up Audit had recently been completed and the draft report was showing a satisfactory result.

RESOLVED 2013/22

That the Unsatisfactory Follow-up Audit report on the cleaning service be noted:

a) Note the satisfactory outcome of the second follow up Audit.

WORK PROGRAMME

RESOLVED: 2013/23

That the Committee’s work programme be noted.

EXCLUSION OF THE PUBLIC

RESOLVED: 2013/24

That the public be excluded from the remainder of the meeting on the grounds that discussions are likely to involve the 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.

EXEMPT APPENDIX TO UNSATISFACTORY FOLLOW-UP AUDIT REPORT – CLEANING SERVICE

RESOLVED: 2013/25

That the information in the exempt appendix to the report be noted.

The meeting closed at 11.20 am

CHAIRMAN

Nottinghamshire County Council

Report to AUDIT COMMITTEE

19 March 2014

Agenda Item: 4

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

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

Purpose of the Report

1. To inform Members of the External Auditors' Annual Report 2012/13 on the certification of Grants and Returns.

Information and Advice

2. The attached report from KPMG summarises the findings from the External Auditor's certification of 2012/13 grants.

3. Only two grant claims were subject to audit in 2012/13 and unfortunately, the Teachers' Pension Return claim was qualified by the External Auditors. The issue related only to the completion of the required analysis on the return rather than to computation issues. The qualification letter indicated that 'the Council experienced difficulties implementing the tiered contribution rates and as a result the payroll system was unable to produce the banding information required in Section 3 Analysis of Contribution Tier. Testing has indicated that the Teachers' contributions have been deducted at the appropriate rate and the Employers contributions have been correctly calculated.'

4. The report is presented to Members for their information. The Audit Director (KPMG), Neil Bellamy, and Richard Walton, the Audit Manager (KPMG), will be in attendance at the meeting to introduce the report and respond to Member's questions.

Statutory and Policy Implications

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

RECOMMENDATION/S

6. That Members receive, and comment upon, the Certification of Grants and Returns Annual Report 2012/13.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
Nigel Stevenson

Constitutional Comments

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

Financial Comments

8. The cost of certifying the 2012/13 grants claims and returns was £3,979.

Background Papers

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

Electoral Division(s) and Member(s) Affected

All

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Certification of grants and returns 2012/13

Nottinghamshire County Council

March 2014

Contents

The contacts at KPMG in connection with this report are:

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Sayeed Haris
Assistant Manager

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Bellamy, who is the engagement leader to the Authority (telephone 0116 256 6082, e-mail neil.bellamy@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

Headlines

Introduction and background	**This report summarises the results of work on the certification of the Council's 2012/13 grant claims and returns.** ■ For 2012/13 we certified: – The Local Transport Grant: Major Projects Grant which had total value of £5.6m; and – The Teachers Pension return which had a total value of £32.6m	
Certification results and Audit adjustments	**A qualification letter was necessary for the Teachers Pension return** ■ The Local Transport Plan; Major Projects claim had been completed incorrectly and needed to be adjusted by £1.4m. This one correction had no impact on the value of the grant due to the Council and we were able to issue an unqualified report. ■ The Audit Practise issued a qualified result for Teachers' Pensions Return as there was insufficient reporting evidence resulting in an incomplete claim. ■ Last year's certification results were unqualified for both the grant and return, although the grant needed significant adjustment.	**Pages 3 – 4**
The Council's arrangements	**The Council has adequate arrangements overall for preparing its grants and returns and supporting our certification work but improvements are required in the preparation of the Teachers Pension return** ■ All grants and returns were submitted on a timely basis, and had been correctly identified as requiring certification in line with the Certification Instruction Index issued by the Audit Commission; and ■ The records kept in relation the preparation of grants returns were accurate and on the whole sufficient. ■ Improvements are required in underlying information systems to allow full and accurate completion of the Teachers Pension return. Our recommendation for improvement is shown on page 6.	**Page 4**
Fees	**The Audit Commission changed its fee regime for certifying grants and returns in 2012/13, and set an indicative fee for the Council of £1,950. Our actual fee for the certification of grants and returns was £3,979.** ■ In previous years the certification of grants and returns was charged on a per day basis. This year is the first year a core fee has been charged. The core fee is based on the comparative fees in 2010/11 for the claims audit and reduced by 40%. ■ The total fee was 46% less than last year's total fee of £7,326 due to some claims not requiring certification in 2012/13. This reduction was offset by an increased amount of work required in relation to the Teachers Pension return which required extra fee. A detailed breakdown of our fees is shown on page 5.	**Page 5**

Summary of certification work outcomes

Overall, we certified two grants and returns:

- **One was unqualified with no amendment;**
- **One required a qualification to our audit certificate.**

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Teachers' Pensions return	1	●		●	
Local Transport Plan: Major Projects					●
		1	0	1	1

Summary of certification work outcomes

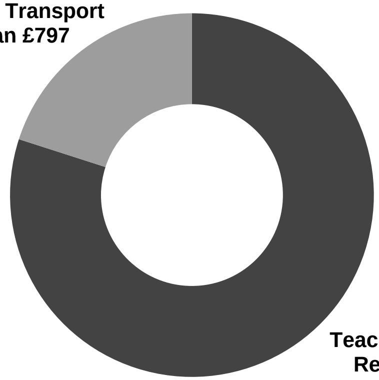
This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
➊	**Teachers' Pensions return** ■ The Council experienced difficulties implementing tiered contribution rates and consequently the payroll system was unable to produce the banding information required in Section 3 of the form (analysis of contributions by tier). ■ Our testing indicated that the teacher's contributions have been deducted at the appropriate rate and Employer's contributions have been correctly calculated. However due to the software issues highlighted above they have not been shown in the form in the required format. ■ If the Council are unable to address this issue then it will not be possible to complete next year's grant claim. ■ As such we were unable fully conclude our testing and issue a clear opinion. These issues have not occurred in previous years.	**£474**

Fees

Our overall fee for the certification of grants and returns was higher than originally estimated but the total fee paid is a reduction on the previous year.

Breakdown of certification fees 2012/13



Breakdown of fee by grant/return		
	2012/13 (£)	**2011/12 (£)**
PEN05 – Teachers' Pensions return	3,182	3,239
TRA11 – Local Transport Plan: Major Schemes	797	3,384
Supervision and Reporting	nil	703
Total fee	**3,979**	**7,326**

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. It set an indicative fee for the Council of £1950.

In previous years the certification of grants and returns was charged on a per day basis. This year is the first year a core fee has been charged. The core fee is based on the comparative fees in 2010/11 for the claims audit and reduced by 40%.

The main reasons for the fee exceeding the indicative fee were:

- the need to certify the Local Transport Plan; Major Schemes grant which was not included in the indicative fee;
- Additional testing on the Teacher's Pension Return required due to the issues noted elsewhere in this report.

Recommendations

We have given the recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

Priority rating for recommendations		
❶ Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	❷ Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Issue	Implication	Recommendation	Priority	Authority Comment	Responsible officer & target date
Evidence to support tiering of contributions in section 3 of the return	If the Authority is unable to complete the Teachers Pension claim in accordance with the full criteria the Teachers Pension Agency may require further detailed information to assure itself that the scheme is being administered correctly. Also a lack of clear evidence to support the return could lead to an increase in audit fees.	The authority should liaise with its software provider to ensure that reports are able to be ran containing sufficient detail in order to support the 2013-14 Teachers Pension return.	2	At the 1 April 2013 the County Council implemented the last phase of the BMS payroll system for schools payrolls. Prior to the 1 April, the Legacy system (Cyborg) had been used to pay the majority of the Teachers for the 2012/13 financial year. However a few teachers had been transferred to the SAP payroll system in phase 1 of the payroll implementation and therefore a manual adjustment had been required to add the data to the Cyborg legacy system totals each month, this was a work around for the financial year pending the full implementation of the payroll system for schools.	Jonathan Clewes (Payroll and Pensions Manager) March 2014

Recommendations (cont.)

Issue	Implication	Recommendation	Priority	Authority Comment	Responsible officer & target date
(continued from previous page)				As tiered reporting was a new requirement for 2012/13 NCC, along with many other Local Education Authorities, who were unable to complete the paying-in slips with the tiered contributions required by TPA due to reporting developments being required. NCC did pay the money over each month well within the deadline. The contributions that were paid over for 2012/13 have been paid over correctly. The completion of the teacher's pension contributions form for 2013/14 will be produced entirely out of the new SAP payroll system which will enable the completion of section 3 of the report which relates to tiers of contributions. As part of the process for this year it is proposed to undertake some form of trial balancing prior to month 12 to confirm our reporting process ready for the final month report. This will then be balanced against the TPA figures that we have paid over to date.	

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Nottinghamshire County Council

Report to AUDIT COMMITTEE

19 March 2014

Agenda Item: 5

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

KPMG - EXTERNAL AUDIT PLAN 2013/14

Purpose of the Report

1. To inform Members of the External Auditors' Audit Plan for their 2013/14 Audit.

Information and Advice

2. The attached report from KPMG sets out the proposed Audit Plan for the 2013/14 audit, including their approach, fees, key staff and timelines for the audit. The report is presented to Members for their information. The Audit Director (KPMG), Neil Bellamy, and Richard Walton, the Audit Manager (KPMG), will be in attendance at the meeting to introduce the report and respond to Member's questions.

Statutory and Policy Implications

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

RECOMMENDATION/S

4. That Members receive, and comment upon, the External Auditor's Audit Plan for 2013/14.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
Nigel Stevenson

Constitutional Comments

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

Financial Comments

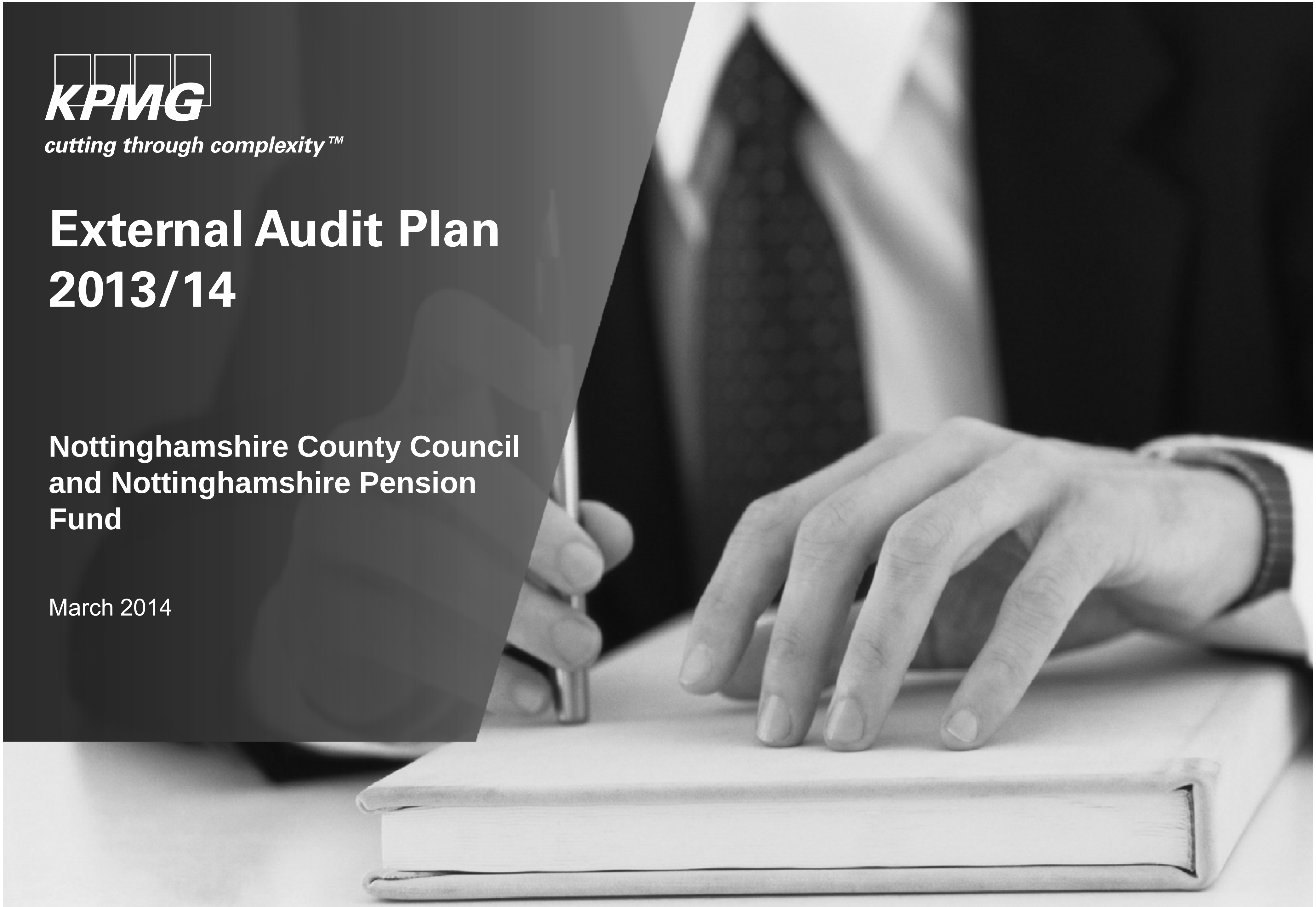
6. There are no financial implications arising from the report.

Background Papers

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

Electoral Division(s) and Member(s) Affected

All



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External Audit Plan 2013/14

Nottinghamshire County Council and Nottinghamshire Pension Fund

March 2014

Contents

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Page

Report sections

Appendices

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Introduction

This document describes how we will deliver our audit work for Nottinghamshire County Council and Nottinghamshire Pension Fund.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in April 2013. It describes how we will deliver our financial statements audit work for Nottinghamshire County Council ('the Authority') and Nottinghamshire Pension Fund ('the Pension Fund'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements of the Authority and the Pension Fund and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risk for the Authority and the Pension Fund.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit approach	Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Paul Simpson (Director of Finance & Procurement). Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risk	We have completed our initial risk assessment for the financial statements audit and have identified the following significant risk: ■ **Local Government Pension Scheme Triennial Valuation** - During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013, with a large volume of data provided to the actuary to support this. As there is an inherent risk around the accuracy of this data, we will need to complete some targeted testing in this area. These are described in more detail on pages 9 - 10. We will assess the Authority and Pension Fund's progress in addressing these risk areas as part of our interim work and conclude this work at year end.
VFM audit approach and risk assessment	We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.
Audit team, deliverables, timeline and fees	There has been no change to the audit team from last year. Our main year end audit for both the Authority and the Pension fund is currently planned to commence in July 2014. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The overall planned fee for the 2013/14 audit is £160,876. This is unchanged from the position set out in our *Audit Fee Letter 2013/14*. This comprises £130,950 for the Authority's audit and £29,926 for Pension Fund.

Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

- **Planning (January and February).**
- **Control Evaluation (February and March).**
- **Substantive Procedures (July and August).**
- **Completion (September).**

We have summarised the four key stages of our financial statements audit process for you below.

	Stage	Activity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	**Planning**	Update our business understanding and risk assessment.	○								
		Assess the organisational control environment.		○							
		Determine our audit strategy and plan the audit approach.		○							
		Issue our *Accounts Audit Protocol*.		○							
2	**Control evaluation**	Evaluate and test selected controls over key financial systems.		○	○						
		Review the internal audit function.			○						
		Review the accounts production process.			△	△					
		Review progress on critical accounting matters			△	△					
3	**Substantive procedures**	Plan and perform substantive audit procedures.						□	○	△	
		Conclude on critical accounting matters.							○	△	
		Identify audit adjustments.							○	△	
		Review the Annual Governance Statement.							△	△	
4	**Completion**	Declare our independence and objectivity.									○
		Obtain management representations.									○
		Report matters of governance interest.					○				○
		Form our audit opinion.									○

Key: ○ Authority and Pension Fund □ Pension Fund only △ Authority only

Our audit approach – planning

During January and February 2014 we completed our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

We will issue our *Accounts Audit Protocol* following completion of our planning work.

Our planning work took place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority and Pension Fund's operations and identify any areas that will require particular attention during our audit of the financial statements.

We identify the key risks affecting the financial statements. These are based on our knowledge of the Authority, Pension Fund, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a quarterly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. We have set separate materiality figures for the Authority and the Pension Fund.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocols*. Separate documents will be issued for the Authority and the Pension Fund. These important documents set out our audit approach and timetable. They also summarise the working papers and other evidence we require during our interim and final accounts visits.

We met with Nigel Stevenson (Group Manager) to discuss mutual learning points from the 2012/13 audit. These will be incorporated into our work plan for 2013/14. We revisit progress against areas identified for development as the audit progresses.

Our audit approach – control evaluation

During February and March 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.

We work with your finance team and the pensions team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our interim visit on site will be completed during February and March 2014. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority and Pension Fund's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Accounts production process

We raised a recommendation in our *ISA 260 Report 2012/13* relating to the accounts production process. The most significant of these were to:

- Strengthen quality assurance procedures during the accounts production process.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June 2014.

Our audit approach – substantive procedures

During July and August 2014 we will be on site for our substantive work on the Authority and Pension Fund's financial statements.

We will complete detailed testing of accounts and disclosures and conclude on critical accounting matters.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* for the Authority and Pension Fund's audit to the Audit Committee in September 2014.

Our final accounts visit on site has been provisionally scheduled for the period July 2014 to August 2014 for the Authority and Pension Fund. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Group Manager in February 2014, prior to reporting to the Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the Group Manager on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

Pension Fund Annual Report

We also issue an opinion on the consistency of the Pension Fund's accounts included in the *Pension Fund Annual Report* with those included in the Statement of Accounts We intend to issue this opinion at the same time as our opinion on the accounts.

Our audit approach – other

In addition to auditing the financial statements, we review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 15.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of March 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Key financial statements audit risk

In this section we set out our assessment of the significant risks to the audit of the financial statements for 2013/14.

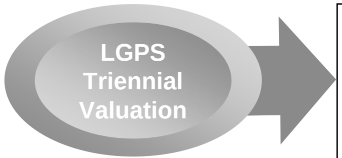
We have outlined the impact on our audit plan for the one key risk identified.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
 **Audit areas affected (Pension Fund)** ■ Disclosures **Audit areas affected (Authority)** ■ Pensions Liability ■ Actuarial gains or losses	**Risk** During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The pension numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by some of the admitted bodies, whose pension liabilities represent a significant element of their balance sheet. This includes the Authority itself.

Key financial statements audit risks (continued)

For each key risk area we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
(continued from previous page)	**Our audit work** As part of our audit of the Pension Fund, we will complete some limited work to agree the data provided to the actuary back to the systems and reports from which it was derived, and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund. If we receive specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the Audit Commission for this purpose. If the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund can consider recharging these costs to the relevant admitted bodies.

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

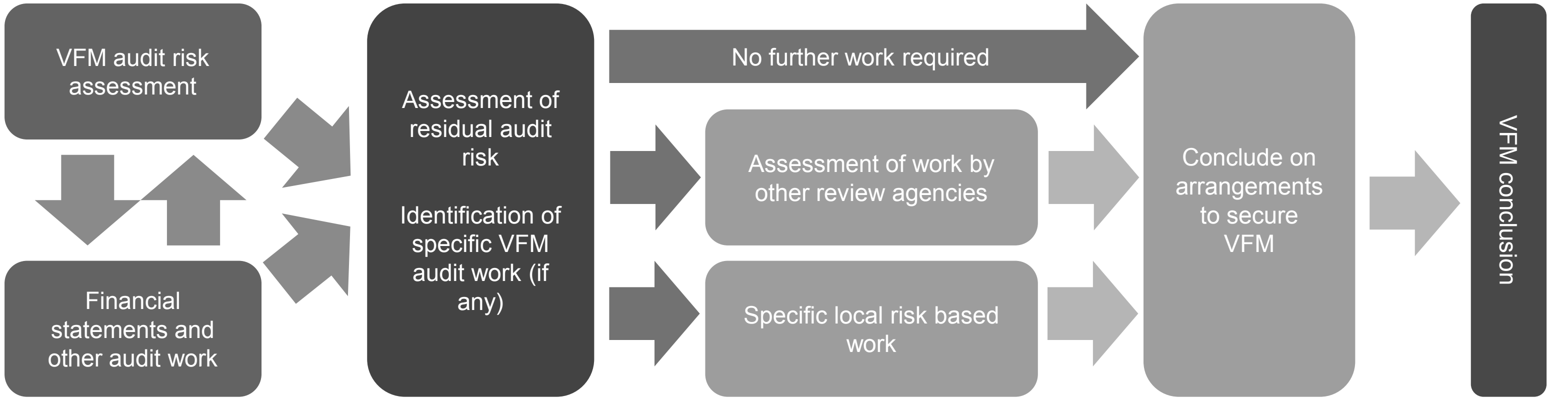
Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of inspectorates and other review agencies.

VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Nottinghamshire County Council and Nottinghamshire Pension Fund audit last year.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

Neil Bellamy

Director

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and Chief Executive."

Richard Walton

Manager

"I provide quality assurance for the audit work and specifically any technical accounting and risk areas.

I will work closely with director to ensure we add value.

I will liaise with the Director of Finance and other Executive Directors."

Sayeed Haris

Assistant Manager

"I will be responsible for the on-site delivery of our work on the Authority's and Pension Fund financial statements. I will liaise with the Finance Team. I will also supervise the work of our audit assistants."

Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures.	**March 2014**
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report) - Authority	■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	**September 2014**
Report to Those Charged with Governance (ISA 260 Report) - Pension Fund	■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit.	**September 2014**
Completion		
Auditor's Report	■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2014**
Whole of Government Accounts	■ Provide our opinion on the Authority's WGA pack submission.	**September 2014**
Pension Fund Annual Report	■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts,	**September 2014**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2014**

Audit timeline

We will be in continuous dialogue with you throughout the audit.

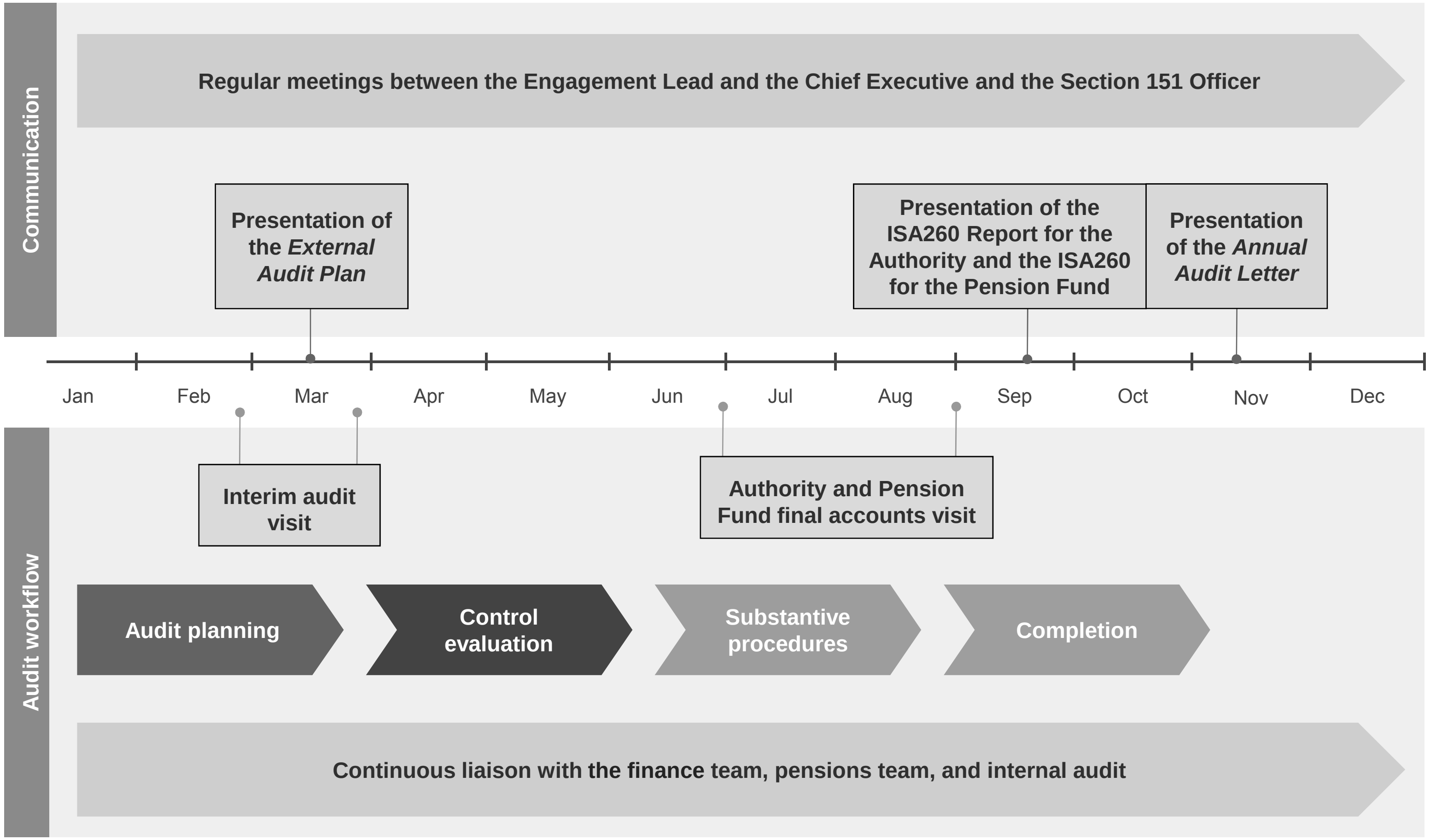
Key formal interactions with the Audit Committee are:

- **March – External Audit Plan;**
- **September – ISA 260 Report;**
- **November – Annual Audit Letter.**

We work with the finance team, pensions team and internal audit throughout the year.

Our main work on site will be our:

- **Interim audit visits during February and March.**
- **Final accounts audit during July and August for the Authority and Pension Fund.**



Key: ● Audit Committee meetings.

Audit fee

The main fee for 2013/14 audit of the Authority is £130,950. The fee for our audit of the Pension Fund is £29,926. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our Audit Fee Letter 2013/14 presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2013/14 (planned)	2012/13 (actual)
Main audit fee	£130,950	£130,950
Pension Fund audit fee	£29,926	£29,927

Our main audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements. The planned total fee for 2013/14 is £160,876.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;
  - requested information will be provided within the agreed timescales;
  - prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to reduce the audit fee. Future audit fees can be reduced/ kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Section 151 Officer.

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Neil Bellamy as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

-A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.

cutting through complexity™

Nottinghamshire County Council

Report to AUDIT COMMITTEE

19 March 2014

Agenda Item: 6

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

STATEMENT OF ACCOUNTS 2013/14 – ACCOUNTING POLICIES

Purpose of the Report

1. To allow the Audit Committee to review and approve the proposed accounting policies used in creating the Authority's Statement of Accounts for 2013/14.

Information and Advice

2. The Statement of Accounts includes a section explaining the accounting policies used in producing the main statements for the benefit of the reader. Both the Code of Practice on Local Authority Accounting and our External Auditors indicate that these policies should be reviewed and approved by the Audit Committee prior to inclusion in the final Statement of Accounts.

3. One major change has been the removal of reference to the Landfill Allowance Scheme from the accounting policies as the scheme ended in 2012/13. Other policies have only been updated for changes in the various dates. The proposed accounting policies are attached to the report.

Other Options Considered

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

Reason/s for Recommendations

5. It is considered good practice to have the Authority's accounting policies approved each year. In addition, the Code of Practice on Local Authority Accounting in the United Kingdom requires changes to the Authority's accounting policies to be approved.

Statutory and Policy Implications

6. 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

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

Paul Simpson
Service Director (Finance and Procurement)

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

Constitutional Comments

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

Financial Comments

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

Background Papers

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

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

Electoral Division(s) and Member(s) Affected

Not applicable

STATEMENT OF ACCOUNTING POLICIES

1. General Policies

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2012, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS).

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

2. Exceptional Items

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

3. Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

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

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

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

4. Charges to Revenue for Non-Current Assets

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

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

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

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

5. Costs of Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users as follows:

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

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

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

6. Employee Benefits & Pensions

Benefits Payable During Employment

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

Termination Benefits

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

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

Post-Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)

- The Local Government Pension Scheme, administered by Nottinghamshire County Council.

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

The Local Government Pension Scheme (LGPS)

The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of projected earnings for current employees. In assessing these liabilities at 31 March 2014 for the 2013/14 Statement of Accounts, the actuary made a number of changes in the assumptions underlying the present value of the scheme liabilities. These include a change in the assumed pensions increases and inflation. Application of these revised assumptions has resulted in an increase in liabilities measured at today's prices of £XX.X million (£XX.X million LGPS, £XX.X million Teachers).
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into several components:
  - current service cost / gain – the change in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on scheme assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – credited/debited to the Pensions Reserve

- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

7. Revenue Expenditure Financed from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

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

8. Property, Plant and Equipment

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

Recognition

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

Assets are, however, only recognised when they exceed the de minimus levels for 2013/14 set out below:

Asset Type	De minimus
Land & Buildings	£0
Community Assets	£10,000
Infrastructure Assets	£0
Assets under Construction	£0
Heritage Assets	£10,000
Vehicles, Plant, Furniture and Equipment	£6,000
Other assets	£6,000

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- Infrastructure, Community Assets and Assets under Construction – depreciated historical cost
- Heritage Assets - held at valuation or, under certain conditions, historical cost (depreciated where appropriate)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

The current land and building values used in the Statement of Accounts are based upon a certificate as at 31 March 2014 issued by I Brearley MRICS, Estates Specialist - Property from the Council's Property Division, on XX May 2014. A rolling 5 year revaluation programme is in place to maintain the accuracy of the valuations. When significant changes occur in any year they are included in the revaluation work undertaken during that year.

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

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

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

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

Impairment

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

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

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

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

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

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

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

Where an item of Property, Plant and Equipment has major components whose costs are at least 20% of the total cost of the item, the components are depreciated separately. A review was carried out for all items over a de minimus of £0.5 million. For the 2013/14 Statement of Accounts, the Authority has not identified any components to be depreciated separately.

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

9. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

Available for Sale Assets

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

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

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

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

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

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

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

10. Cash and Cash Equivalents

Amounts held in call accounts or money market funds are highly liquid and readily convertible. These can be held for relatively long periods as call account rates are currently attractive. However, these accounts are used to cover short-term cash flow needs and so will be classed as cash equivalents.

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

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

11. Other Assets

Intangible Assets

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

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

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

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

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

Interests in Companies and Other Entities

In the Authority's accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Investment Property

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

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

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

Jointly Controlled Operations and Jointly Controlled Assets

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

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

12. Inventories

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

13. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected
- Where significant debtors or creditors arise from such items as government grants and pay awards that are not yet finalised, estimates are made on the basis of best information that is currently available.

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

14. Financial Liabilities

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

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

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

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

15. Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

16. Private Finance Initiative (PFI) and Similar Contracts

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

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

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Authority.

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – charges for ongoing maintenance of the Property, Plant and Equipment debited to the relevant scheme.

17. Government Grants and Contributions

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

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

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

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

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

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

18. Provisions

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

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

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

~~Landfill Allowance Schemes~~

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

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

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

~~The fair value of landfill allowances is currently assessed at zero and the Authority has not incurred any cash penalty, so no values are recorded for use of landfill during the 2012/13 financial year.~~

~~The scheme runs until the end of 2012/13 with conclusion of trades on 30th September 2013~~.

19. Contingent Liabilities

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

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

20. Contingent Assets

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

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

No contingent assets have been identified for the Authority at 31 March 2014.

21. Reserves

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

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

22. VAT

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

23. Events After the Balance Sheet Date

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

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

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

24. Foreign Currency Translation

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

25. The Carbon Reduction Scheme

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

26. Heritage Assets

Tangible and Intangible Heritage Assets

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

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

Ceremonial Regalia and Art Collection

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

Architectural Drawings and Records

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

Heritage Assets – General

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

Nottinghamshire County Council

Report to Audit Committee

19 March 2014

Agenda Item: 7

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT

STATEMENT ON CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Purpose of the Report

1. To review the level of compliance of the system of Internal Audit with the Public Sector Internal Audit Standards and approve the actions proposed.

Information and Advice

2. The Public Sector Internal Audit Standards (PSIAS) came into force from 1st April 2013. One of the requirements of the standards is to report the results of the quality assurance and improvement programme to senior management and the Board (ie Audit Committee) at least annually.
3. The PSIAS are derived from international standards. As such, they set out clear principles for professional practice. The practical implementation of the standards for local government in the United Kingdom has been further developed by CIPFA who have published the Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards. In order to satisfy proper internal audit practices, there is a requirement to comply with the Standards and the Local Government Application Note.
4. The Standards and Application Note are necessarily technical and extensive. The Application Note sets out a detailed checklist of individual areas that need to be considered when coming to a view of the level of conformance with the PSIAS. A copy of the checklist is attached as **Appendix A** and includes an internal assessment completed by the Head of Internal Audit.
5. The checklist includes over 330 items. The internal assessment confirms that for the vast majority of items, over 96%, the Authority complies with the PSIAS and Application Note.
6. Where the Authority does not comply there is a requirement to set out an improvement programme to bring the Authority into compliance, or where the Authority determines that it is not appropriate to comply, that there is an exception and the reasons for this. The quality assurance and improvement programme (QAIP) sets out the areas of non-compliance and the proposed action to be taken. The QAIP is attached as **Appendix B**.

Other Options Considered

7. There is a mandatory requirement for the Authority to comply with the Public Sector Internal Audit Standards and the Application Note. No other options have been considered.

Reason/s for Recommendation/s

8. To provide information to Members on the Public Sector Internal Audit Standards, the Local Government Application Note and the Head of Internal Audit's assessment of the level of compliance with them.

Statutory and Policy Implications

9. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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 level of compliance with the Public Sector Internal Audit Standards and approve the actions proposed in the Quality Assurance and Improvement Programme.

Paul Simpson
Service Director (Finance and Procurement)

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

Constitutional Comments (SLB 20/02/2014)

Audit Committee is the appropriate body to consider the content of this report.

Financial Comments (JMB 18/2/14)

The net budget for internal audit for 2013/14 is £360k. The conformance with agreed standards for the system of internal audit is key to ensuring that the service is effective. The level of conformance is high and will be further developed as set out in the QAIP.

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:

Public Sector Internal Audit Standards
Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards

Electoral Division(s) and Member(s) Affected

All

APPENDIX A

Checklist for assessing conformance with the Public Sector Internal Audit Standards and the local government application note

Assessment completed by John Bailey, Head of Internal Audit, Nottinghamshire County Council

February 2014

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
1	**Definition of Internal Auditing**				
	Using evidence gained from assessing conformance with other Standards, is the internal audit activity:				
	a) Independent?	X			
	b) Objective?	X			
	Using evidence gained from assessing conformance with other Standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	X			
2	**Code of Ethics**				
	Integrity Using evidence gained from assessing conformance with other Standards, do internal auditors:				
	a) Perform their work with honesty, diligence and responsibility?	X			
	b) Observe the law and make disclosures expected by the law and the profession?	X			
	c) Not knowingly partake in any illegal activity nor engage in in acts that are discreditable to the profession of internal auditing or to the organisation?	X			
	d) Respect and contribute to the legitimate and ethical objectives of the organisation?	X			
	Objectivity Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not:				
	a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?	X			
	b) Accepting anything that may impair or be				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	presumed to impair their professional judgement?	X			
	c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?	X			
	Confidentiality Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:				
	a) Acting prudently when using information acquired in the course of their duties and protecting that information?	X			
	b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?	X			
	Competency Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:				
	a) Only carrying out services for which they have the necessary knowledge, skills and experience?	X			
	b) Performing services in accordance with the PSIAS?	X			
	c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?	X			
	Do internal auditors have regard to the on Standards of Public Life's *Seven Principles of Public Life*?	X			
	Standards				
3	**Attribute Standards**				
3.1	**1000 Purpose, Authority and Responsibility**				
	Does the internal audit charter include a formal definition of:				
	a) the purpose b) the authority, and c) the responsibility of the internal audit activity consistent with the				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	Public Sector Internal Audit Standards (PSIAS)?	X			
LGAN	Does the internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity? Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.	X			
	Does the internal audit charter also:				
	a) Set out the internal audit activity's position within the organisation?	X			
	b) Establish the CAE's functional reporting relationship with the board?	X			
LGAN	c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively?	X			
LGAN	d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?	X			
	e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	X			
LGAN	f) Define the scope of internal audit activities?	X			
LGAN	g) Recognise that internal audit's remit extends to the entire control environment of the organisation?	X			
LGAN	h) Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011?	X			
LGAN	i) Establish the organisational independence of internal audit?	X			
	j) Cover the arrangements for appropriate resourcing?	X			
	k) Define the role of internal audit in any fraud-related work?	X			
	l) Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	X			

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	X			
	n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?	X			
	o) Define the nature of consulting services?	X			
	p) Recognise the mandatory nature of the PSIAS?	X			
	Does the chief audit executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	X			
	Does the CAE attend audit committee meetings?	X			
	Does the CAE contribute to audit committee agendas?	X			
3.2	**1100 Independence and Objectivity**				
	Does the CAE have direct and unrestricted access to senior management and the board?		X		
	Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?		X		
	Are threats to objectivity identified and managed at the following levels:				
	a) Individual auditor?	X			
	b) Engagement?	X			
	c) Functional?	X			
	d) Organisation?	X			
	1110 Organisational Independence				
	Does the CAE report to an organisational level equal or higher to the corporate management team?			X	Explain
LGAN	Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	X			
LGAN	Have reporting and management arrangements been put in place that preserve the CAE's independence and objectivity? This is of particular importance when the CAE is line managed by another officer of the authority.		X		Not formally agreed but effective in practice
LGAN	Does the CAE's position in the management structure:				
	a) Reflect the influence he or she has on the control				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	environment?	X			
	b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board?	X			
	c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?	X			
	Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:	X			
	The board:				
	a) approves the internal audit charter	X			
	b) approves the risk-based audit plan	X			
	c) approves the internal audit budget and resource plan			X	
	d) receives communications from the CAE on the activity's performance (in relation to the plan, for example)	X			
	e) approves decisions relating to the appointment and removal of the CAE			X	
	f) seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.	X			
	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?		X		
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			X	
	1111 Direct Interaction with the Board				
	Does the CAE communicate and interact directly with the board?	X			
	1120 Individual Objectivity				
	Do internal auditors have an impartial, unbiased attitude?	X			
	Do internal auditors avoid any conflict of interest, whether apparent or actual?	X			
	1130 Impairment to Independence or				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	Objectivity				
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	X			
	Have internal auditors assessed specific operations for which they have been responsible within the previous year?			X	
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?				Not applicable
LGAN	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	X			
LGAN	Have internal auditors declared interests in accordance with organisational requirements?	X			
LGAN	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?	X			
LGAN	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?			X	
LGAN	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	X			
LGAN	Have internal auditors complied with the Bribery Act 2010?	X			
	If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?	X			
	Where there have been significant additional				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	X			
3.3	**1200 Proficiency and Due Professional Care**				
	1210 Proficiency				
	Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	X			CIPFA
	Is the CAE suitably experienced?	X			20years
LGAN	Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	X			
LGAN	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?	X			
	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	X			
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?	X			
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	X			
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	X			
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	X			
	1220 Due Professional Care				
	Do internal auditors exercise due professional care by considering the:				
	a) Extent of work needed to achieve the engagement's objectives?	X			
	b) Relative complexity, materiality or significance of matters to which assurance procedures are applied?	X			

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	c) Adequacy and effectiveness of governance, risk management and control processes?	X			
	d) Probability of significant errors, fraud, or non-compliance?	X			
	e) Cost of assurance in relation to potential benefits?	X			
	Do internal auditors exercise due professional care during a consulting engagement by considering the:				
	a) Needs and expectations of clients, including the nature, timing and communication of engagement results?	X			
	b) Relative complexity and extent of work needed to achieve the engagement's objectives?	X			
	c) Cost of the consulting engagement in relation to potential benefits?	X			
	1230 Continuing Professional Development				
LGAN	Has the CAE defined the skills and competencies for each level of auditor?	X			
LGAN	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	X			
	Do internal auditors undertake a programme of continuing professional development?	X			
	Do internal auditors maintain a record of their professional development and training activities?	X			
3.4	**1300 Quality Assurance and Improvement Programme**				
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	X			
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?	X			
	Does the CAE maintain the QAIP?	X			
LGAN	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	X			
	1310 Requirements of the Quality Assurance				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	and Improvement Programme				
	Does the QAIP include both internal and external assessments?			X	
	1311 Internal Assessments				
LGAN	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	X			
	Do internal assessments include ongoing monitoring of the internal audit activity, such as:				
	a) Routine quality monitoring processes?	X			
	b) Periodic assessments for evaluating conformance with the PSIAS?	X			
LGAN	Does ongoing performance monitoring include comprehensive performance targets?	X			
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	X			
LGAN	Does the CAE measure, monitor and report on progress against these targets?	X			
LGAN	Does ongoing performance monitoring include obtaining stakeholder feedback?	X			
	Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices? Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.	X			
LGAN	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	X			
	1312 External Assessments				
	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?				Assessment not yet completed
LGAN	Has the CAE considered the pros and cons for the different types of external assessment (ie 'full' or self-assessment plus 'independent validation')?				
	Has the CAE discussed the proposed form of the				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	external assessment and the qualifications and independence of the assessor or assessment team with the board?				
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?				
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?				
	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? Competence can be determined in the following ways: a) experience gained in organisations of similar size b) complexity c) sector (ie the public sector) d) industry (ie local government), and e) technical experience. Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.				
	How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?				
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.				
	1320 Reporting on the Quality Assurance and Improvement Programme				
	Has the CAE reported the results of the QAIP to				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	senior management and the board?			X	
	Note that:				
	a) the results of both external and periodic internal assessment must be communicated upon completion				
	b) the results of ongoing monitoring must be communicated at least annually				
	c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.				
	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?				
	1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'				
	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	X			
	1322 Disclosure of Non-conformance				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board?	X			
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	X			
4	**Performance Standards**				
4.1	**2000 Managing the Internal Audit Activity**				
	Do the results of the internal audit activity's work achieve the purposes and responsibility of the activity, as set out in the internal audit charter?	X			
	Does the internal audit activity conform with the *Definition of Internal Auditing* and the *Standards*?	X			
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the *Code of Ethics* and the *Standards*?	X			
	Does the internal audit activity add value to the organisation and its stakeholders by				
	a) Providing objective and relevant assurance?	X			
	b) Contributing to the effectiveness and efficiency of the governance, risk management and internal				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	control processes?	X			
	2010 Planning				
	Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	X			
	Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?	X			
	Does the risk-based plan take into account the organisation's assurance framework?	X			
	Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:				
	a) How the internal audit service will be delivered?	X			Service Plan
	b) How the internal audit service will be developed in accordance with the internal audit charter?	X			Service Plan
	c) How the internal audit service links to organisational objectives and priorities?	X			Service Plan
	Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	X			
	In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?	X			
	If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	X			
LGAN	Does the risk-based plan set out the:				
	a) Audit work to be carried out?	X			
	b) Respective priorities of those pieces of audit work?	X			
	c) Estimated resources needed for the work?	X			
LGAN	Does the risk-based plan differentiate between audit and other types of work?	X			
LGAN	Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?	X			
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business,				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	risks, operations, programmes, systems and controls?	X			
	Is the internal audit activity's plan of engagements based on a documented risk assessment?	X			
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?	X			
LGAN	In developing the risk-based plan, has the CAE also considered the following:				
	a) Any declarations of interest (for the avoidance for conflicts of interest)?	X			
	b) The requirement to use specialists, eg IT or contract and procurement auditors?	X			
	c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary?	X			
	d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	X			
	Is the input of senior management and the board considered in the risk assessment process?	X			
	Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?	X			
	Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	X			
	Are consulting engagements that have been accepted included in the risk-based plan?	X			
	2020 Communication and Approval				
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?	X			
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	X			
	Has the CAE communicated the impact of any				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	resource limitations to senior management and the board?	X			
	2030 Resource Management				
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?	X			
LGAN	Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time?	X			
LGAN	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.	X			
	2040 Policies and Procedures				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	X			
LGAN	Has the CAE established policies and procedures to guide staff in performing their duties in a manner than conforms to the PSIAS? Examples include maintaining an audit manual and/or using electronic management systems.	X			
LGAN	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	X			
	2050 Coordination				
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?		X		
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?		X		
	Does the CAE share information and coordinate activities with other internal and external providers of assurance and consulting services?	X			
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	coordinate their respective audit plans?	X			
	2060 Reporting to Senior Management and the Board				
	Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?	X			
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	X			
	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?	X			
	2070 External Service Provider and Organisational Responsibility for Internal Auditing				
	Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?				Not applicable
4.2	**2100 Nature of Work**				
	Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and internal control processes?	X			
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	X			
	2110 Governance				
	Does the internal audit activity:				
	a) Promote appropriate ethics and values within the organisation?	X			
	b) Ensure effective organisational performance management and accountability?	X			
	c) Communicate risk and control information to				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	appropriate areas of the organisation?	X			
	d) Coordinate the activities of and communicate information among the board, external and internal auditors and management?	X			
	Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing the above objectives?	X			
	Has the internal audit activity evaluated the:				
	a) design	X			
	b) implementation, and	X			
	c) effectiveness of the organisation's ethics-related objectives, programmes and activities?	X			
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	X			
LGAN	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?	X			
	2120 Risk Management				
	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that:				
	a) Organisational objectives support and align with the organisation's mission?	X			
	b) Significant risks are identified and assessed?	X			
	c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?	X			
	d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?	X			
	Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems regarding the:				
	a) Achievement of the organisation's strategic	X			

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	objectives?				
	b) Reliability and integrity of financial and operational information?	X			
	c) Effectiveness and efficiency of operations and programmes?	X			
	d) Safeguarding of assets?	X			
	e) Compliance with laws, regulations, policies, procedures and contracts?	X			
	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	X			
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	X			
	Are internal auditors alert to other significant risks when undertaking consulting engagements?	X			
	Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?	X			
	2130 Control				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the:				
	a) Achievement of the organisation's strategic objectives?	X			
	b) Reliability and integrity of financial and operational information?	X			
	c) Effectiveness and efficiency of operations and programmes?	X			
	d) Safeguarding of assets?	X			
	e) Compliance with laws, regulations, policies, procedures and contracts?	X			
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	X			
4.3	**2200 Engagement Planning**				
	Do internal auditors develop and document a plan				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	for each engagement?	X			
	Does the engagement plan include the engagement's:				
	a) Objectives?	X			
	b) Scope?	X			
	c) Timing?	X			
	d) Resource allocations?	X			
	Do internal auditors consider the following in planning an engagement, and is this documented:				
	a) The objectives of the activity being reviewed?	X			
	b) The means by which the activity controls its performance?	X			
	c) The significant risks to the activity being audited?	X			
	d) The activity's resources?	X			
	e) The activity's operations?	X			
	f) The means by which the potential impact of risk is kept to an acceptable level?	X			
	g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model?	X			
	h) The opportunities for making significant improvements to the activity's governance, risk management and control processes?	X			
	Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:				Not applicable
	a) Objectives?				
	b) Scope?				
	c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?				
	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:				
	a) Objectives?	X			
	b) Scope?	X			

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	c) The respective responsibilities of the internal auditors and the client and other client expectations?	X			
	For significant consulting engagements, has this understanding been documented?	X			
	2210 Engagement Objectives				
	Have objectives been agreed for each engagement?	X			
	Have internal auditors carried out a preliminary risk assessment of the activity under review?	X			
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?	X			
	Have internal auditors considered the probability of the following, when developing the engagement objectives:				
	a) Significant errors?	X			
	b) Fraud?	X			
	c) Non-compliance?	X			
	d) Any other risks?	X			
	Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished?	X			
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?	X			
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?	X			
LGAN	If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been considered; including money, people and assets?	X			
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	X			
	Are the objectives set for consulting engagements consistent with the organisation's own values,	X			

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	strategies and objectives?				
	2220 Engagement Scope				
	Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives?	X			
	Does the engagement scope include consideration of the following relevant areas of the organisation:				
	a) Systems?	X			
	b) Records?	X			
	c) Personnel?	X			
	d) Premises?	X			
	Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate:				
	a) Systems?	X			
	b) Records?	X			
	c) Personnel?	X			
	d) Premises?	X			
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	X			
	Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?	X			
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives?	X			
	If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?	X			
	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	X			
	During consulting engagements, were internal				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	auditors alert to any significant control issues?	X			
	2230 Engagement Resource Allocation				
	Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on:				
	a) The nature and complexity of each individual engagement?	X			
	b) Any time constraints?	X			
	c) The resources available?	X			
	2240 Engagement Work Programme				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives?	X			
	Do the engagement work programmes include the following procedures for:				
	a) Identifying information?	X			
	b) Analysing information?	X			
	c) Evaluating information?	X			
	d) Documenting information?	X			
	Were work programmes approved prior to implementation for each engagement?	X			
	Were any adjustments required to work programmes approved promptly?	X			
4.4	**2300 Performing the Engagement**				
	Have internal auditors carried out the following in order to achieve each engagement's objectives:				
	a) Identify sufficient information?	X			
	b) Analyse sufficient information?	X			
	c) Evaluate sufficient information?	X			
	d) Document sufficient information?	X			
	2310 Identifying Information				
	Have internal auditors identified the following in order to achieve each engagement's objectives:				
	a) Sufficient information?	X			
	b) Reliable information?	X			
	c) Relevant information?	X			
	d) Useful information?	X			
	2320 Analysis and Evaluation				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	X			
LGAN	Have internal auditors remained alert to the possibility of the following:				
	a) intentional wrongdoing	X			
	b) errors and omissions	X			
	c) poor value for money	X			
	d) failure to comply with management policy, and	X			
	e) conflicts of interest	X			
	when performing their individual audits, and has this been documented?	X			
	2330 Documenting Information				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	X			
LGAN	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?	X			
	Does the CAE control access to engagement records?	X			
	Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?	X			
	Has the CAE developed and implemented retention requirements for all types of engagement records?	X			
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	X			
	2340 Engagement Supervision				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	X			
	Is appropriate evidence of supervision documented and retained for each engagement?	X			
4.5	**2400 Communicating Results**				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	Do internal auditors communicate the results of engagements?	X			
	2410 Criteria for Communicating				
	Do the communications of engagement results include the following:				
	a) The engagement's objectives?	X			
	b) The scope of the engagement?	X			
	c) Applicable conclusions?	X			
	d) Recommendations and action plans, if appropriate?	X			
LGAN	Has the internal auditor discussed the contents of the draft final report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	X			
LGAN	If recommendations and an action plan have been included, are recommendations prioritised according to risk?	X			
LGAN	If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?	X			
LGAN	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	X			
LGAN	Do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?	X			
LGAN	Do the final communications of engagement results contain, where appropriate, the internal auditor's opinions and/or conclusions, building up to the annual internal audit opinion on the control environment?	X			
	When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	X			
	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	information?	X			
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	X			
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?			X	
LGAN	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?	X			
	2420 Quality of Communications				
	Are communications:				
	a) Accurate?	X			
	b) Objective?	X			
	c) Clear?	X			
	d) Concise?	X			
	e) Constructive?	X			
	f) Complete?	X			
	g) Timely?	X			
	2421 Errors and Omissions				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	X			
	2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'				
	Do internal auditors report that engagements are *'conducted in conformance with the PSIAS'* only if the results of the QAIP support such a statement?				Not applicable
	2431 Engagement Disclosure of Nonconformance				
	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:				
	a) The principle or rule of conduct of the *Code of*				

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	Ethics or *Standard(s)* with which full conformance was not achieved?	X			
	b) The reason(s) for non-conformance?	X			
	c) The impact of non-conformance on the engagement and the engagement results?	X			
	2440 Disseminating Results				
	Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	X			
	Has the CAE communicated engagement results to all appropriate parties?	X			
	Before releasing engagement results to parties outside the organisation, did the CAE:				
	a) Assess the potential risk to the organisation?	X			
	b) Consult with senior management and/or legal counsel as appropriate?	X			
	c) Control dissemination by restricting the use of the results?	X			
	Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	X			
	2450 Overall Opinion				
	Has the CAE delivered an annual internal audit opinion?	X			
	Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control?	X			
	Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?	X			
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	X			
	Does the communication identify the following:				
	a) The scope of the opinion, including the time period to which the opinion relates?	X			
	b) Any scope limitations?	X			
	c) The consideration of all related projects including the reliance on other assurance providers?	X			

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
	d) The risk or control framework or other criteria used as a basis for the overall opinion?	X			
	Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?	X			
	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	X			
	Does the annual report incorporate the following:				
	a) The annual internal audit opinion?	X			
LGAN	b) A summary of the work that supports the opinion?	X			
LGAN	c) A disclosure of any qualifications to the opinion?	X			
LGAN	d) The reasons for any qualifications to the opinion?	X			
LGAN	e) A disclosure of any impairments or restriction in scope?	X			
LGAN	f) A comparison or work actually carried out with the work planned?	X			
	g) A statement on conformance with the PSIAS?	X			
LGAN	h) The results of the QAIP?	X			
LGAN	i) Progress against any improvement plans resulting from the QAIP?			X	First year of QAIP
LGAN	j) A summary of the performance of the internal audit activity against its performance measures and targets?	X			
	k) Any other issues that the CAE judges is relevant to the preparation of the governance statement?	X			
4.6	**2500 Monitoring Progress**				
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action?	X			
	Where issues have during the follow-up process, has the CAE considered revising the internal audit opinion?	X			
	Do the results of monitoring management actions inform the risk-based planning of future audit work?	X			
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	X			

Ref	Conformance with the Standard	Yes	Partly	No	Evidence
4.7	**2600 Communicating the Acceptance of Risks**				
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	X			
	If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	X			

APPENDIX B

Quality Assurance Improvement Plan

Nottinghamshire County Council Internal Audit Service

March 2014

Checklist reference	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline
3.2 1100	Chief Audit Executive (CAE) should have direct and unrestricted access to senior management and the Board	Access to the Board is not set out in the Internal Audit Charter	Update Charter	Head of Internal Audit	June 2014
3.2 1110	CAE should report to level of corporate management team	CAE reports to Service Director	Explain as part of Annual Report	Head of Internal Audit	June 2014
3.2 1110	Reporting and management arrangements in place to preserve the CAE's independence and objectivity	Formal arrangements not in place	Amend Head of Internal Audit's job description to include arrangements for raising concerns	Service Director for Finance and Procurement	June 2014
3.2 1110 (c)	The Board approves the internal audit budget and resource plan	The Board does not approve the budget. This is a responsibility of Full Council	Explain arrangements as part of Annual Report	Head of Internal Audit	June 2014
3.2 1110 (e)	The Board approves decisions relating to the appointment and removal of the CAE	This responsibility is fulfilled by the Service Director under the Constitution.	Explain arrangements as part of Annual Report	Head of Internal Audit	June 2014
3.2 1110	The Chief Executive should contribute to the performance appraisal of the CAE	No formal contribution from the Chief Executive	Include in future performance appraisal	Service Director for Finance and Procurement	December 2014
3.2 1110	Feedback should be sought from the Chair of the Audit Committee for the CAE's performance appraisal	No formal contribution from the Chair	Include in future performance appraisal	Service Director for Finance and Procurement	December 2014

Checklist reference	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline
3.4 1310	The QAIP should include both internal and external assessments	No external assessment has been completed to date	External assessment of compliance with the standards will be needed	Service Director for Finance and Procurement	December 2017
3.4 1320	The results of the QAIP should be reported to the Board	Not previously reported	Report to Board	Head of Internal Audit	March 2014
4.1 2050	The risk-based plan should set out the approach to using other sources of assurance and any work that may be required to place reliance upon those sources	Not formally set out in the risk-based plan	Include section in risk-based plan to cover how sources of assurance are used	Head of Internal Audit	June 2014
4.1 2050	The CAE should carry out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance	Not formally developed	Develop assurance mapping for future planning	Head of Internal Audit	March 2015
4.5 2410	Engagement results released outside the organisation should include limitations on distribution and use of the results	No caveat is placed on results released outside the organisation	A caveat will be developed to set out the limitations on use of the results	Head of Internal Audit	Immediate
4.5 2450	Progress against the QAIP should be set out in the CAE's Annual Report	First year of the QAIP	The Annual Report will include a section on progress against the QAIP	Head of Internal Audit	June 2014

Nottinghamshire County Council

Report to Audit Committee

19 March 2014

Agenda Item: 8

REPORT OF SERVICE DIRECTOR, FINANCIAL SERVICES

NATIONAL FRAUD INITIATIVE 2012/13

Purpose of the Report

1. To update Members on the results to date of the Audit Commission's data matching exercise, the National Fraud Initiative 2012/13 (NFI 2012/13).

Information and Advice

2. The Audit Commission carries out a data matching exercise throughout the country, on a two yearly basis, to help public sector organisations detect fraudulent and erroneous payments. The main purpose of the exercise is to match data from a range of organisations to help reduce the level of fraud in key areas, including housing benefit, pensions, tenancy fraud and supplier management.

3. The NFI 2012/13 required the County Council to submit payroll data relating to both employees and pensioners to the Audit Commission. This data was matched against other authorities' payroll and housing benefit data, against the Department of Work and Pensions (DWP) deceased persons data, and against Home Office immigration records.

4. Data was required on the payments to creditors for the period April 2009 to September 2012, which was analysed for duplicate payments, duplicate supplier records and incorrect payments of VAT. An exercise was carried out on potential matches of staff details and supplier details to examine the possibility of any conflicts of interest for employees of the Authority.

5. Data in respect of Blue Badge parking permits, residents parking permits, concessionary fares and payments to private residential care homes was compared with DWP deceased persons data, and details of insurance claims were analysed to identify potential duplicate or serial claimants.

RESULTS OF NFI 2012/13

6. No frauds or errors have been found from the examination of pension payments.

7. One error was found in respect of payroll payments where a former employee had continued to be paid for two months after leaving the Council's employment. Steps have been taken to recover the overpayment of £5,484.

8. Matching payroll data with information from the immigration services revealed one case where an employee's right to remain in the UK had expired. The person's employment has been terminated. Efforts have been made to recover wages paid to this person (£21,854) but have not been successful.

9. The examination of potential duplicate creditor payments has so far revealed one overpayment of £15,198. The company concerned has agreed to effect repayment.

10. Information from the DWP concerning deceased persons has identified seven Blue Badge Parking permits that have been cancelled will be monitored to ensure that they are not renewed.

11. The matching of payments to providers of private residential care to DWP deceased persons revealed one instance of overpayment in the sum of £12,414, which will be recovered from the service provider.

12. The total value of the sums subject to recovery is £33,096.

13. The NFI exercise is ongoing and analysis has still to be made of certain matches. If, on completion of the examination of data matches, there are any further matters of significance, these will be highlighted to the Committee in a subsequent report.

Other Options Considered

14. The report is for information only.

Reason/s for Recommendation/s

15. The report is for information only

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That Members note the report.

Paul Simpson
Service Director (Finance)

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

Constitutional Comments (SLB 20/02/2014)

17. This report is for noting only.

Financial Comments (JMB 18/2/14)

18. Minimising losses through fraud and error is important. The National Fraud Initiative provides a tool which allows a large volume of data to be cross-matched so that potential fraud and error can be identified and investigated. The scrutiny and recovery of payments made incorrectly is important in emphasising that fraud and error will not be tolerated.

Background Papers

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

Electoral Division(s) and Member(s) Affected

All

Nottinghamshire County Council

Report to Audit Committee

19 March 2014

Agenda Item: 9

REPORT OF CORPORATE DIRECTOR, POLICY, PLANNING AND CORPORATE SERVICES

WORK PROGRAMME

Purpose of the Report

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

Information and Advice

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.

3. The attached work programme has been drafted in consultation with the Chairman and Vice-Chairman, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such

implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

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

Jayne Francis-Ward
Corporate Director, Policy, Planning and Corporate Services

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

Constitutional Comments (HD)

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

Financial Comments (PS)

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

Background Papers

None.

Electoral Division(s) and Member(s) Affected

All

AUDIT COMMITTEE - WORK PROGRAMME

Report Title	**Brief summary of agenda item**	**For Decision or Information**	**Lead Officer**	**Report Author**
11 June 2014				
Internal Audit Report 2013/14	Report from the Head of Internal Audit providing an internal audit opinion that can be used to inform the Authority's Governance Statement.	Information	John Bailey	John Bailey
Internal Audit Plan 2014/15	Provision of a risk-based plan for the Authority which will enable an annual internal audit opinion to be produced.	Information	John Bailey	John Bailey
Draft Annual Governance Statement 2013/14	Review and comment on the draft Annual Governance Statement prior to being forwarded on to Full Council to accompany the Statement of Accounts	Decision	John Bailey	John Bailey
Annual External Audit Fees	To inform Members of proposed external audit fees for 2014/15	Information	Nigel Stevenson	Nigel Stevenson / External Auditor
September 2014 (date TBC)				
External Audit Annual Governance Reports	To receive for information, and comment, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval	Information	Nigel Stevenson	Nigel Stevenson / External Auditor
Review of the effectiveness of the Audit Committee	To review CIPFA guidance on "best practice" for Audit Committees, assess current practice at the County Council and whether improvements could be made	Decision	Paul Simpson	John Bailey