Nottinghamshire
County Council

Audit Committee

Wednesday, 27 March 2013 at 10:00

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

AGENDA

1	Minutes 12 sept 2012	5 - 8
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	Internal Audit Progress Report April 12 - Dec 12	9 - 18
5	Public Sector Internal Audit Standards and Audit Charter	19 - 32
6	Statement of Accounts 201213 - Accounting Policies	33 - 50
7	Certification of claims and returns - Audit Commission Annual report 201112	51 - 60
8	KPMG External Audit Plan 1213	61 - 86
9	National Water Sports Centre	87 - 90

10 Exclusion of the Public

The Committee will be invited to resolve:-

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

Note

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

EXEMPT INFORMATION ITEMS

11 Appendix A – National Water Sports Centre follow up Audit.

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 08449 80 80 80

(3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules.

(4) Members or Officers requiring clarification on whether to make a declaration of interest are invited to contact Ruth Rimmington (Tel. 0115 9773825) or a colleague in the Democratic Services prior to the meeting.

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

__Notes__

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

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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 Ruth Rimmington (Tel. 0115 977 3825) 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	12 September 2012 (commencing at 2.00 pm)

membership
Persons absent are marked with `A'

COUNCILLORS

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

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

OFFICERS IN ATTENDANCE

David Forster	)	Policy, Planning and Corporate Services
John Bailey	)	
Nigel Stevenson	)	Environment and Resources Department
Rob Disney	)	
Andrew Howarth	)	
Caroline Baria	)	Adult Social Care and Health
Judith Horsfall	)	

ALSO IN ATTENDANCE

Councillor Reg Adair

Mike Norman	-	Audit Commission
Ian Sadd	-	Audit Commission

MINUTES

The minutes of the last meeting of the Committee held on 23 May 2012, having been circulated, were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

Apologies for absence were received from:-

Councillor John Clarke - Other County Council Business

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

EXTERNAL AUDIT – ANNUAL GOVERNANCE REPORTS

Mr Norman and Mr Sadd introduced the report and informed committee that the audit reports are scheduled to be signed off by the 30 September 2012.

RESOLVED 2012/013

That the External Auditor's Annual Governance Reports on the County Council and the Pension Fund accounts be noted and :

1. that the matters raised in the report are noted before the financial statements are re-signed by the Section 51 Officer.

2. that the unadjusted misstatements set out in appendix 2 (amended copy circulated at the meeting) and the reasons for not correcting these misstatements as set out in the Letter of Representation be noted.

3. that the Letter of Representation be noted.

DRAFT LOCAL AUDIT BILL 2012 – CONSULTATION

RESOLVED 2012/014

That the proposals outlined in the Draft Local Audit Bill and the Council's response as set out in Appendix A to the report be noted.

FINANCIAL REGULATIONS WAIVERS 2011/12

RESOLVED 2012/015

That the report be noted.

UNSATISFACTORY FOLLOW-UP AUDIT REPORT – MEALS AT HOME INCOME

On a Motion by Councillor Mrs Cutts, seconded by Councillor R Jackson it was :-

RESOLVED 2012/016

1. That the report be noted and

2. that the Chairman, Vice-Chairman of Audit and the Chairman of the Finance and Property Committee meet with Officers as a matter of urgency to look at the

Meals at Home Income and that the recommendations be presented to the Finance and Property Committee at the earliest opportunity.

EXCLUSION OF THE PUBLIC

On a motion by the Chairman, duly seconded it was:-

RESOLVED: 2012/017

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.

It was further:-

RESOLVED: 2012/018

That Mr Sadd and Mr Norman from the Audit Commission be invited to stay in the meeting for the remaining items of business.

UNSATISFACTORY FOLLOW-UP AUDIT REPORT – MEALS AT HOME INCOME – APPENDICES

RESOLVED: 2012/019

That the appendices be noted.

INVESTIGATION: CHANGE OF SUPPLIER BANK DETAILS

Mr Stevenson introduced the report and informed members that there are now more stringent procedures in place for dealing with requests of this nature.

RESOLVED: 2012/020

That the report be noted.

The meeting closed at 2.45 pm.

CHAIRMAN

Nottinghamshire County Council

Report to Audit Committee

27 March 2013

Agenda Item: 4

REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT

INTERNAL AUDIT PROGRESS REPORT – 1ST APRIL 2012 TO 31ST DECEMBER 2012

Purpose of the Report

1. To inform Members of the work carried out in the first nine months of the 2012/13 financial year and to comment on the progress made against the Internal Audit Plan.

Information and Advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.

3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to:-

    a) determine and monitor the achievement of the Authority's objectives

    b) identify, assess and appropriately manage the risks to achieving the Authority's objectives

    c) facilitate policy and decision making

    d) ensure the economical, effective and efficient use of resources

    e) ensure compliance with established policies, procedures, laws and regulations

    f) safeguard the Authority's assets and interests

4. Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The CIPFA Code of Practice for Internal Audit in Local Government recommends that an interim report on Internal Audit work should be presented to Authorities' Audit Committees and this report satisfies this expectation. In addition, a progress report to the end of September 2012 was prepared for the December meeting of the Audit Committee. The December meeting was cancelled due to a lack of any other business, and a copy of the report was sent to committee members for information.

<u>Summary of Internal Audit Work 01/04/12 to 31/12/12</u>

5. The audits completed to 31 December 2012 cover a broad range of the Authority's operations, with reviews carried out at establishment, divisional, departmental and corporate levels. The time spent on audit work compared to that planned is shown in Appendix 1. Overall, the number of days spent carrying out audits is slightly higher than planned. Good progress is being made on all departments.

6. In the first nine months of the year, a total of 104 County Council audits have been completed against a planned coverage of 147 audits for the year. For 74 of the completed audits, a formal report has been issued which includes an audit opinion on the level of internal control. A detailed analysis of the reports issued is shown in Appendix 2, setting out the area covered, the Audit Opinion, and the number of recommendations made and accepted. The other 30 audits covered a range of areas including auditing grant claims, provision of detailed written advice and responding to irregularities.

7. During the period there were 11 internal audit reports issued with an "Unsatisfactory" audit opinion. The details of these reports are set out below.

   ASC 1222 – Meals at Home Income follow up. This was a follow up audit, following a previously unsatisfactory opinion. Insufficient progress had been made to implement the agreed recommendations. In particular, there were weaknesses in cash receipting, cash was not being banked promptly, and there was a growing long-term debt. The concerns were referred to the Audit Committee. Action has now been taken to address the weaknesses and Audit Committee have asked that a working group be established to eliminate cash income collection from the system.

   ASC 1220 – Direct Payments Monitoring. Although significant progress has been made in setting out a framework for monitoring payments, a large number of service users (over 300) had not been asked for monitoring information since November 2010. There was a lack of compliance with the guidance for raising case note alerts on framework. Seven recommendations have been made, and agreed, to ensure that the requirements of the scheme are met.

   CFCS 1216 – Environmental Education Day Centres. Concerns were identified over the control of purchase cards, imprest accounts and budget monitoring. Whilst the sums involved are relatively low, the potential for abuse is high. Seventeen recommendations have been made and actions agreed to implement effective control. A follow up audit has now been completed and the audit opinion is that there is now satisfactory internal control.

CFCS 1220 – National Water Sports Centre Stock Review. During an investigation into concerns raised by an employee, a number of system weaknesses were identified. In particular, recommendations were made to improve recording of stock details, clarify policy on the provision of discounted rates, improve security, review stocktake information and investigate shortfalls and ensure that wastage is monitored effectively.

E&R 1206 – Mobile Phones. The key concerns identified were lack of clear criteria for providing phones, how personal use is reimbursed to the Authority, control and return of phones when they are no longer required and lack of any overview of total costs.

E&R 1221 – Purchasing and Credit Cards. The audit concluded that there was inadequate control over the use of purchase / credit cards. In particular there were cases where staff were not retaining receipts to confirm expenditure, no line-manager review of expenditure, cards being used by staff other than the nominated card holder, and cards not being returned when the card holder leaves the council.

CFCS 1301 – National Water Sports Centre – follow up. Although substantial progress has been made with the implementation of the recommendations made, a key weakness remains, in the lack of separation of duties for cash handling and reconciliation. A separate report identifying the concerns is on the Audit Committee agenda.

E&R 1305 – Car Loans. This audit was carried out at the request of the new manager of the service, as there were concerns over the effectiveness of the controls in place. These concerns were justified, and identified a number of areas of non-compliance with the schemes rules and criteria. Whilst these were relatively minor in nature, they were significant in number and demonstrated unsatisfactory control.

Primary School reports. Three primary schools had an unsatisfactory audit opinion. A range of weaknesses were identified. Some of the key areas of concern were over school meal income and monitoring, reporting and approving budgetary information.

8. There were four Internal Audit Reports with "Unsatisfactory" audit opinions that have been revisited during the period between 1st April 2012 and 30th September 2012 to ensure that the recommendations that were agreed for implementation have been acted upon. The details are set out in Table 1.

Table 1: Follow up audits completed during period 1st April to 31st December 2012

Original report number	Area audited	Current Audit Opinion
E&R 1111	Desktop Management	Satisfactory
ASC 1201	Meals at Home Income	Unsatisfactory – reported to Audit Committee September 2012
CFCS 1216	Environmental Education Day Centres	Satisfactory
COM 1120	National Water Sports Centre	Unsatisfactory – a report is on the agenda for March 2013 Audit Committee

Internal Audit Performance Indicators

9. Progress against the Section's performance indicators, as at 31 December 2012, is detailed in the table below:-

Internal Audit Performance Indicators 2012/13

Performance Measure/Criteria	Target	Outcome as at 31/12/12
Comply with Audit Code of Practice	Compliance achieved	External Audit Review 2007 confirmed compliance
Completion of Audit Plan - Days - Jobs	90% 90%	101% 94%
Positive customer feedback	Feedback good or excellent	Achieved (average score is 1.5 where 1 is excellent and 2 is good)
Recommendations accepted	95%	98%
Productive time	70%	70%
External Audit Reliance on Internal Audit	Positive	Positive

10. Progress to date in completing the Audit Plan has been good and it is anticipated that the full number of Audit Days will be provided by the end of the financial year.

11. The responses to our audit reports continue to be positive. A total of 590 recommendations were made during the nine month period to the end of December 2012 and 577 have been agreed for implementation. Customer feedback from the Quality Control Questionnaires is also positive with an average score of 1.5.

Conclusion

12. Internal Audit work completed to 31 December 2012 is on target. The work completed to date shows that the Authority's overall system of internal control continues to be satisfactory.

Other Options Considered

13. This report is for information and noting. No alternative options have been considered.

Reason/s for Recommendation/s

14. This report is for noting.

Statutory and Policy Implications

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

RECOMMENDATION/S

16. Members are asked to note the Internal Audit Progress Report and comment accordingly.

Name of Report Author: John Bailey
Title of Report Author: Head of Internal Audit

For any enquiries about this report please contact: John Bailey (telephone 0115 977 2226)

Constitutional Comments

17. The report is for noting only.

Financial Comments (JMB 26/2/13)

18. The net budgeted cost for Internal Audit for 2012/13 is £356k. The estimated cost in 2012/13 of internal audit for each £1m spent is £291 for Nottinghamshire, compared to an average of £433 for county councils.

Background Papers

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

The reports set out in Appendix 2 are available as background papers.

Electoral Division(s) and Member(s) Affected

All

APPENDIX 1

INTERNAL AUDIT PLAN 2012/13
Analysis of Audit Coverage 1 April 2012 to 31 December 2012

	Annual Plan 2012/13	**Third Quarter 75% Plan**	**Third Quarter Actual**	**Variance**
	Days	Days	Days	Days
Children, Families and Cultural Services (includes schools)	602	452	544	+92
Adult Social Care, Health and Public Protection	273	205	133	-72
Environment and Resources	595	446	513	+67
Policy, Planning and Corporate Services	106	79	107	+28
Cross cutting work	247	185	87	-98
Contingency/Special Projects	100	75	75	-
Total County Council	1923	1442	1459	+17
External Contracts	219	164	162	-2
OVERALL TOTAL	**2142**	**1606**	**1621**	**+15**

APPENDIX 2

INTERNAL AUDIT PLAN 2012/13
Audits Completed 1 April 2012 to 31 December 2012

Audit Report Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
Adult Social Care, Health and Public Protection							
Risk Management	Satisfactory	-	2	3	-	2	3
Meal at Home Income – follow up	Unsatisfactory	2	3	1	2	3	1
Direct Payments monitoring	Unsatisfactory	2	4	1	2	4	1
Sub Total		4	9	5	4	9	5
Children, Families and Cultural Services							
Environmental Education Day Centres	Unsatisfactory	-	17	-	-	16	-
National Water Sports Centre – stock review	Unsatisfactory	8	6	-	8	6	-
Youth Club Funds	Satisfactory	-	3	5	-	3	5
National Water Sports Centre – follow up	Unsatisfactory	1	7	-	1	7	-
Redundancies in Schools	Sound	-	-	-	-	-	-
Targeted Support and Youth Justice	Satisfactory	-	2	4	-	2	4
Environmental Education Day Centres – follow up	Satisfactory	-	3	2	-	3	2
Sub Total		9	38	11	9	37	11
School Audits							
Secondary Schools (5 final reports issued)	Overall, three	1	36	5	0	34	5
Primary Schools (45 final reports issued)	unsatisfactory,	16	307	74	16	303	69

	30 satisfactory and 17 sound						
Department and Area audited	**Audit Opinion**	**Recommendations made and Risk Rating**			**Recommendations Agreed**		
		High	Medium	Low	High	Medium	Low
Environment and Resources							
Mobile Phones	Unsatisfactory	-	4	-	-	4	-
Desktop Management – follow up	Satisfactory	-	3	-	-	3	-
Purchasing and Credit Cards	Unsatisfactory	2	2	3	2	2	3
Geographic Information System	Satisfactory	-	2	1	-	2	1
Waste Management	Satisfactory	-	2	7	-	2	7
Concessionary Travel	Satisfactory	-	1	2	-	1	2
ICT Service Level Management	Sound	-	-	1	-	-	1
Car Parking Enforcement	Sound	-	-	-	-	-	-
ICT Environmental Controls	Sound	-	-	1	-	-	1
Car Loans	Unsatisfactory	-	13	4	-	13	4
Careworks system	Satisfactory	1	2	-	1	2	-
Cleaning Services allegations	N/A	-	7	-	-	7	-
Sub Total		3	36	19	3	36	19
Policy, Planning and Corporate Services							
Internet Content	Satisfactory	-	3	1	-	3	1
Improvement Programme	Satisfactory	-	7	6	-	7	6
Sub Total		-	10	7	-	10	7
TOTAL		33	436	121	32	429	116

Nottinghamshire County Council

Report to Audit Committee

27 March 2013

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT

PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER

Purpose of the Report

1. To inform Members of the new Public Sector Internal Audit Standards which come into force from 1st April 2013, recommend approval of their use by the Authority, and to recommend approval of an Internal Audit Charter as required by the standards.

Information and Advice

2. The Internal Audit Service complies with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code sets out 11 standards which cover:-

   * Scope of Internal Audit
   * Independence
   * Ethics for Internal Auditors
   * Audit Committees
   * Relationships
   * Staffing, Training and Continuing Professional Development
   * Audit Strategy and Planning
   * Undertaking Audit Work
   * Due Professional Care
   * Reporting
   * Performance, Quality and Effectiveness

2. The Chartered Institute of Public Finance and Accountancy is the standard setter for internal audit in local government across the United Kingdom and has agreed, with other standard setters, a common set of Public Sector Internal Audit Standards (PSIAS) from 1st April 2013. The PSIAS have been developed to apply the Institute of Internal Auditors International Standards to the UK public sector.

3. The new standards are split into 2 categories: Attribute Standards and Performance Standards as set out below.

   Attribute Standards
   Purpose, authority and responsibility

Independence and objectivity
Proficiency and due professional care
Quality assurance and improvement programme

Performance Standards
Managing the internal audit activity
Nature of work
Engagement planning
Performing the engagement
Communicating results
Monitoring progress
Communicating the acceptance of risks

4. There is a large degree of consistency between the current Code of Practice and the new PSIAS. For example, both sets of standards set out the need for independence, due professional care and effective reporting / communication of the results of audit work.

5. The main changes introduced by the new standards are set out below.

   * There is a requirement for an internal audit 'charter' which must formally define the purpose, authority and responsibility of the internal audit activity, as well as the nature of consulting services and the terms 'board' and 'senior management'. It also has to cover the arrangements for avoiding conflicts of interest if internal audit carries out non-audit activities.

   * A periodic external assessment is required, to be carried out by qualified and independent assessors from outside the organisation.

   * A formal Quality Assurance and Improvement Programme is required which includes on-going internal assessments of all aspects of internal audit activity.

6. An Internal Audit Charter has been drafted, which sets out the purpose, authority and responsibility of internal audit within the Authority, and how the requirements of the PSIAS will be met. A copy of the draft is attached as Appendix A.

7. It is proposed that the role of the 'board' is fulfilled by the Audit Committee. The 'board' is defined in the PSIAS as:-

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

8. The role of senior management will be fulfilled by the Corporate Leadership Team, which comprises the Chief Executive and Corporate Directors.

9. The role of the chief audit executive will be fulfilled by the Group Manager – Audit.

Other Options Considered

10. This report sets out the requirements of the new Public Sector Internal Audit Standards, a proposed Internal Audit Charter and how the roles of the 'board', senior management and chief audit executive will be fulfilled. No alternative options have been considered.

Reason/s for Recommendation/s

11. The new Public Sector Internal Audit Standards come into force from 1st April 2013. The Authority needs to confirm that it will comply with the standards, and agree an Internal Audit Charter setting out how compliance will be achieved.

Statutory and Policy Implications

12. 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

13. Members are asked to:-

    * Recommend to Full Council that the Authority should comply with the Public Sector Internal Audit Standards.

    * Recommend to Full Council that the draft Internal Audit Charter is adopted by the Authority.

Name of Report Author: John Bailey
Title of Report Author: Group Manager - Audit

For any enquiries about this report please contact: John Bailey (telephone 0115 977 2226)

Constitutional Comments (KK 22/2/13)

14. The proposals in this report are within the remit of the Audit Committee.

Financial Comments (JMB 21/2/13)

15. There are no direct 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.

Public Sector Internal Audit Standards

Electoral Division(s) and Member(s) Affected

All

APPENDIX A

Internal Audit Charter

1. **INTRODUCTION**

1.1 This Charter defines Internal Audit's role within the County Council. The Charter complies with the Public Sector Internal Audit Standards, the Accounts and Audit Regulations 2011, and the County Council's Financial Regulations. This Charter has been approved by Nottinghamshire County Council's Audit Committee, acting as the 'Board' in respect of Internal Audit.

2. **PURPOSE, AUTHORITY AND RESPONSIBILITY**

2.1 The purpose of Internal Audit is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2.2 It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

In particular it:

(a) carries out a risk based review and evaluation of the County's financial and other systems and procedures

(b) provides management and Members with advice and assurance to assist them in the effective discharge of their responsibilities

(c) plans audit work having regard to the Authority's Corporate plans.

2.3 Internal Audit derives its authority from the Accounts and Audit Regulations 2011, this Charter and Nottinghamshire County Council's Constitution. The Financial Regulations, which are part of the Constitution, set out that:-

The Section 151 Officer is responsible for arranging the continuous independent internal audit of the Council. The Internal Audit Service will be provided in accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards.

Internal Audit focuses on the Authority's control environment and independently appraises the internal controls present in financial and other systems. The arrangements made by Corporate Directors for securing *economic, efficient and effective use of resources are also reviewed. Internal Audit reports are produced containing recommendations which should be responded to formally in writing. The results of Internal Audit work contribute to the Authority's Annual Governance Statement.*

Internal Audit staff have the right of access to such records, assets, premises and personnel, and are entitled to receive such information and explanation, as they think necessary for the proper fulfilment of their duties.

If an irregularity occurs or is suspected, which may involve financial loss, it must be reported immediately to the Section 151 Officer who may investigate and report to the Monitoring Officer and the relevant Corporate Director. The Section 151 Officer and the Monitoring Officer will jointly determine what further action to take, in consultation with the Corporate Director.

The Internal Audit Service reports on relevant audit issues on a regular basis to the Authority's Audit Committee. Frequent liaison also occurs between Internal Audit and the Authority's External Auditors who rely upon the work of Internal Audit when forming their opinion on the Authority's key financial and other systems.

2.4 The role of the 'board' is fulfilled by the Audit Committee.

2.5 The role of senior management is fulfilled by the Corporate Leadership Team, comprising the Chief Executive and Corporate Directors of the Authority.

2.6 The role of the chief audit executive is fulfilled by the Group Manager – Audit and s/he is responsible for meeting the requirements of the Internal Audit Charter and complying with the Public Sector Internal Audit Standards. The Group Manager – Audit reports directly to the Section 151 officer, but also has responsibilities to senior management and the Audit Committee.

2.7 The resourcing of Internal Audit is under continuous review by the Section 151 Officer and the Group Manager – Audit. The resource requirements are brought into sharp focus during discussions and agreement on the Internal Audit Strategy and Annual Plan. Further details are set out in Section 6.

2.8 In addition, the Section undertakes internal consultancy work, carries out suspected irregularity investigations and provides an audit service, on a contract basis, to specific external clients.

2.9 In carrying out consultancy work, the Internal Audit role is to assist management in the achievement of the Authority's objectives. The work involved may cover facilitation, process design, training, advisory services and investigatory work. For most assignments, specific terms of reference will be drawn up to define the scope and limits of the work involved. In overall terms, in order to ensure it can deliver its assurance work, Internal Audit aims to limit its consultancy and irregularity work to approximately 10% of its available resource.

3. INDEPENDENCE AND OBJECTIVITY

3.1 The Internal Audit Section is organised so that it is independent of the activities that it audits. Because of this, the Section can provide impartial and unbiased professional opinions and recommendations. Internal Audit is free to plan, undertake and report on its work, as the Group Manager - Audit deems appropriate.

3.2 The status of the Group Manager - Audit is sufficient to allow the effective discussion of audit strategies, plans, results and improvement plans with Senior Management in the organisation.

3.3 Internal Audit is accountable to the Section 151 Officer and the Authority's Audit Committee, both being involved in determining its priorities. It reviews the resources available to it on a regular basis to ensure that it has sufficient resources to fulfil its responsibilities, reporting the results of the review to the Audit Committee, as part of its annual planning process.

3.4 The Group Manager - Audit meets on a regular basis with the Authority's Section 151 Officer and the Authority's Monitoring Officer as the key officers with statutory responsibilities in relation to the internal control environment.

3.5 The Group Manager – Audit is required to confirm annually the organisational independence of the internal audit activity.

3.6 Individual internal auditors are also required to have an impartial, unbiased attitude and avoid any conflict of interest. To meet this requirement, each auditor is required to declare any interests they have that could have an impact on their audit work, and confirms that they have read the Authority's Code of Conduct for employees. The Group Manager – Audit will not assign work to an auditor where a conflict of interest may arise. If independence or objectivity is impaired, either in fact or appearance, the details of the impairment must be disclosed to the relevant parties.

4. PROFICIENCY AND DUE PROFESSIONAL CARE

4.1 Internal Audit operates in accordance with the Public Sector Internal Audit Standards. Compliance with the Standards is reviewed annually by the Group Manager - Audit.

4.2 A thorough recruitment process, in accordance with the Authority's procedures, applies to the appointment of Audit staff to ensure the Section has the appropriate professional skills and experience to fulfil its objectives. The Group Manager - Audit is appointed by the Section 151 Officer and must be a qualified accountant with at least 5 years audit and managerial experience. Similarly, the Audit Team Managers should be qualified accountants with at least 3 years audit and managerial experience. The qualifications and skills required for all posts are detailed in job descriptions and person specifications maintained by the Group Manager - Audit.

4.3 Internal Auditors have an annual review of their performance and development needs. They are provided with the appropriate training to fulfil their responsibilities and maintain their professional development and competence.

5. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

5.1 The Group Manager - Audit reviews the work of the Section on an annual basis to provide assurance that it conforms with the relevant standards and requirements of the Internal Audit Charter.

5.2 The Internal Audit Section takes the following actions to provide a professional service:

- Adopts a flexible risk driven approach
- Works in partnership with managers and staff to develop and maintain adequate and reliable systems of internal control
- Continually seeks to improve the effectiveness and efficiency of its services in consultation with managers from across the Authority
- Maintains an effective Audit Manual and regularly reviews its procedures to ensure they remain appropriate
- Monitors and reports on specific performance indicators and targets.

5.3 The Public Sector Internal Audit Standards require that an external assessment of Internal Audit be conducted at least once every five years by a qualified, independent assessor from outside the organisation. The Group Manager – Audit will raise this periodically with the Audit Committee to determine the form of external assessment, the required qualifications and independence of the assessor and the frequency of the assessment.

5.4 Arising from the internal review, external assessments and the annual review of Internal Auditors' performance and development, the Group Manager – Audit will, in discussion with senior management and the Audit Committee, develop an Improvement Programme.

5.5 Where non-conformance to the Public Sector Internal Audit Standards impacts on the overall scope or operation of the internal audit activity, the Group Manager – Audit must disclose the non-conformance to Senior Management and the Audit Committee.

6. MANAGEMENT OF INTERNAL AUDIT ACTIVITY

6.1 Internal Audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources in meeting the Internal Audit Charter.

6.2 The Group Manager - Audit produces an Internal Audit Strategy consisting of a three year plan and an annual plan. The plans are developed in consultation with the Corporate Directors, Section 151 Officer and Senior Managers. The Strategy details how the assurance for the opinion on the overall adequacy and effectiveness of the organisation's control environment will be demonstrated.

6.3 The Internal Audit plans are subject to annual revision and approval by the Section 151 Officer for reporting to the Audit Committee. These plans include an element of contingency to allow Internal Audit to be responsive to changes in conditions and to requests for assistance from managers. They also take account of the Authority's risk management process with the aim of identifying and evaluating any residual risks, not covered by appropriate control mechanisms, that need to be included in the Internal Audit Plan. The Plan process also involves assessing, through ongoing liaison with management and External Audit, any new developments or significant changes in the Authority's responsibilities.

6.4 Objectives are prepared for each routine Internal Audit assignment and are normally discussed with relevant line managers before the work is started. Internal Audit will usually give reasonable notice to the relevant manager of the start of an audit and will minimise any disruption to the smooth running of the area under review. However, Internal Audit reserves the right to make unannounced visits where the Group Manager - Audit considers it necessary.

6.5 The Section adopts a structured approach to all its work including the use of a risk based systematic approach, where appropriate, for opinion audits.

7. <u>AUDIT COMMITTEE RESPONSIBILITIES</u>

7.1 Internal Audit has a responsibility to report to the Authority's Audit Committee. The Committee is chaired by a member of the opposition party and consists of nine members. The Committee meets four times a year and has clear terms of reference. It reviews both Internal and External Audit work throughout the Authority and contributes to the organisation's overall process for ensuring that the Authority has good governance.

7.2 The Committee reviews and comments upon:

(a) Internal Audit Charter
(b) Internal Audit's Annual Report, (including the opinion of the Authority's control environment)
(c) Internal Audit's Strategy, Annual Plan and Progress against the Plan (including key findings and recommendations)

(d) External Audit's Annual Audit Letter and Annual Plan
(e) Reports on the implementation of Internal Audit recommendations
(f) Reports on relevant Audit Commission and other public sector publications concerning general audit developments
(g) Any significant audit issues that may arise within the Authority.

7.3 The Group Manager - Audit attends every meeting and presents Internal Audit reports to the Committee.

8. **SUSPECTED IRREGULARITY INVESTIGATIONS**

8.1 In accordance with the Authority's Financial Regulations, Internal Auditors carry out investigations into suspected financial irregularities. All managers have an obligation to maintain an effective internal control system within their areas of work, and this includes a responsibility for the prevention and detection of fraud, corruption and other irregularities as well as managing the risks of fraud or corruption.

8.2 However, Internal Auditors when conducting audit assignments are alert to circumstances, such as control weaknesses, that could allow fraud. If any evidence of fraud or other irregularity is discovered the relevant line manager is informed.

8.3 Managers are required to inform Internal Audit immediately if a fraud or other irregularity is suspected. In such cases, they should ensure that:

Any supporting information or other evidence is secured
Confidentiality is maintained so as not to prejudice any subsequent investigation.

8.4 Internal Audit will consider each suspected fraud or irregularity and determine whether to investigate it itself or to resolve it by another means, for example, referral to the Police, as appropriate. An established link exists with the Police which allows both formal and informal liaison on any suspected irregularity issues. Formal referral occurs after consultation with Legal Services and relevant Managers. It is the responsibility of the relevant line manager to determine what action to take as a result of the investigation.

8.5 The Group Manager - Audit may carry out other special investigations at the request of the Section 151 Officer or other Senior Managers.

9. **INTERNAL AUDIT REPORTING**

9.1 Internal Audit reports its findings to appropriate managers, who have a responsibility to respond promptly to the reports' recommendations. Recommendations are risk ranked and reports contain an audit opinion on the area reviewed. There are four separate audit opinions, namely sound, satisfactory, unsatisfactory and unsound. If an opinion is unsatisfactory or unsound, a follow-up audit is carried out six months later to ensure that the recommendations have been implemented.

9.2 Where the opinion is sound or satisfactory, the Internal Audit Section reviews the implementation of agreed recommendations the next time the area is audited. In the case of unsatisfactory and unsound opinions, if the recommendations have still not been implemented when the follow-up audit is carried out, then this is reported to the Audit Committee who raise the issue with the relevant Managers concerned.

9.3 Audit reports are circulated to the relevant Committee Chairmen and Opposition Members so that they are aware of audit findings in their areas of portfolio responsibility. Members can raise queries on reports as appropriate by contacting the Group Manager - Audit or Audit Team Managers direct on issues which concern them. This direct access by Members to Internal Audit applies in any situation where Members wish to raise any issues of concern with Internal Audit.

10. COORDINATION OF AUDIT ASSURANCE

10.1 The Group Manager – Audit co-ordinates Internal Audit Plans and activities with other internal and external providers of assurance, including the External Auditors, to ensure the most efficient use of the total resources devoted to audit work. Regular liaison meetings take place during the course of the year as appropriate.

10.2 Internal Auditors foster constructive relationships with Members, the Managers and others involved in the areas being audited, and also with other review and specialist agencies that it may encounter as part of its work.

10.3 Liaison with Managers takes place at key stages of the audit process namely planning, undertaking, reporting and responding to, audits. The guiding principle adopted throughout is one of assistance in the achievement of the Authority's objectives.

Nottinghamshire County Council

Report to AUDIT COMMITTEE

27 March 2013

Agenda Item: 6

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

STATEMENT OF ACCOUNTS 2012/13 – 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 2012/13.

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. Other than updating the various dates in the policies, there are no changes to the accounting policies from those approved last year. 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. The Code of Practice on Local Authority Accounting in the United Kingdom requires changes to the Authority's accounting policies to be approved and although there are no changes to these policies for the 2012/13 accounts it is still considered good practice to have the Authority's accounting policies approved each year.

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 2012/13

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 2012/13 financial year and its position at the year-end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, 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 fixed assets during the year:

§ depreciation attributable to the assets used by the relevant service

§ revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

§ amortisation of intangible fixed assets attributable to the service.

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

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

5. COSTS OF SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users as follows:

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

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

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

6. EMPLOYEE BENEFITS & PENSIONS

Benefits Payable During Employment

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

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

The Local Government Pension Scheme

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

§ The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projections of projected earnings for current employees. In assessing these liabilities at 31 March 2013 for the 2012/13 Statement of Accounts, the actuary made a number of changes in the assumptions underlying the present value of the scheme liabilities. These include a change in the assumed pensions increase from XX% to XX% and inflation. Application of these revised assumptions has resulted in an increase in liabilities measured at today's prices of £XX million (£XX million LGPS, £XX million Teachers).

§ The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

  quoted securities – current bid price

  unquoted securities – professional estimate

  unitised securities – current bid price

  property – market value.

§ The change in the net pensions liability is analysed into seven components:

  current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

  past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

  interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

  expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

  gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

  actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve

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

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

Discretionary Benefits

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

7. REVENUE EXPENDITURE FINANCED FROM CAPITAL UNDER STATUTE

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

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

8. PROPERTY PLANT AND EQUIPMENT

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (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 2012/13 set out below:

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- heritage assets - held at valuation and under certain conditions historical cost (depreciated where appropriate)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

The current land and building values used in the Statement of Accounts are based upon a certificate as at 31 March 2013 issued by the Council's Property Group Manager, XXXXXXXX MRICS, on XX May 2013. A rolling 5 year revaluation programme is in place to maintain the accuracy of the valuations. When significant changes occur in any year they are included in the revaluation work undertaken during that year.

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

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

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

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

Impairment

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

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

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

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

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

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

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

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. For the 2012/13 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 (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

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

§ instruments with quoted market prices – the market price

§ other instruments with fixed and determinable payments – discounted cash flow analysis

§ equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

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

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

10. CASH AND CASH EQUIVALENTS

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

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

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

11. OTHER ASSETS

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (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 own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Investment Property

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

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

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

Jointly Controlled Operations and Jointly Controlled Assets

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

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

12. INVENTORIES

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

13. ACCRUALS OF INCOME AND EXPENDITURE

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

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

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (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 fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

16. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

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

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

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

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

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

17. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

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

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

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

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

18. PROVISIONS

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

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

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

Landfill Allowance Schemes

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

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

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

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

19. CONTINGENT LIABILITIES

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

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

20. CONTINGENT ASSETS

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

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

No contingent assets have been identified for the Authority at 31st March 2013.

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

Architectural Drawings and Records

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

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, 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 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

27 March 2013

Agenda Item: 7

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

CERTIFICATION OF CLAIMS AND RETURNS - KPMG ANNUAL REPORT 2011/12

Purpose of the Report

1. To inform Members of the External Auditors' Annual Report 2011/12 on the certification of Claims and Returns.

Information and Advice

2. The attached report from KPMG summarises the findings from the External Auditor's certification of 2011/12 claims and concludes that there are no recommendations arising. All claims and returns were certified by audit deadlines. The report is presented to Members for their information. The Audit Director (KPMG), Neil Bellamy, and Sarah Draper, 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 Certification of Claims and Returns Annual Report 2011/12.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
Nigel Stevenson

Constitutional Comments

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

Financial Comments

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

Background Papers

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

Electoral Division(s) and Member(s) Affected

All

KPMG

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Certification of grants and returns 2011/12

Nottinghamshire County Council

January 2013

Contents

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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 6063, 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Headlines

Introduction and background	**This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns.** ■ For 2011/12 the Audit Commission's Audit Practice certified: – 1 grant with a total value of £1.6m; and – 1 return with a total value of £41.1m.	-
Certification results	**The Audit Practice issued unqualified certificates for all grants and returns.**	**Pages 3**
Audit adjustments	**Adjustments were necessary to one of the Council's grants and returns as a result of the certification work this year.** ■ One claim had been completed incorrectly and needed to be adjusted by £1.4m. The one correction had no impact on the value of the grant due to the Council.	**Pages 4**
The Council's arrangements	**The Council has adequate arrangements for preparing its grants and returns and supporting the certification work .**	**Page 5**
Fees	**The overall fee for the certification of grants and returns was higher than the original estimate.** ■ The total fees for the year were higher than the original estimate as a new claim was brought to the auditor's attention during the year.	**Page 5**

Change of auditor appointment

The change in auditor appointment has not affected the completion of certification work.

The Audit Commission has outsourced all the work formerly undertaken by its internal Audit Practice. KPMG was appointed as your external auditor, for 2012/13 onwards, with effect from 1 September 2012. Under that appointment KPMG also became responsible for completing any aspects of pre 2012/13 audits, including delivery of this annual report on certification work.

We received a report from the Audit Commission's Audit Practice setting out the work they had completed on certifying claims and returns before 31 October 2012. We have incorporated their findings and any recommendations into this report.

Summary of certification work outcomes

Overall, the Audit Practice certified 2 grants and returns:

- **Both were unqualified but one required significant adjustment**

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from the Audit Practice's certification work on the Council's 2011/12 grants and returns, showing where either audit amendments were made as a result of their work or where they 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
Teacher's Pension Return					
Local Transport Plan Major Projects			1		
		0	**1**	**0**	**1**

Summary of certification work outcomes

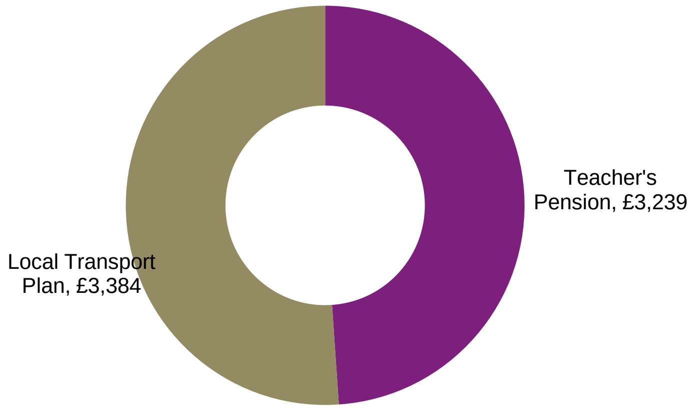
This table summarises the key issues behind the adjustments that was identified on the previous page.

Ref	Summary observations	Amendment
1	**Local Transport Plan - Major Projects** ▪ The draft claim had been filled in incorrectly. The amendment had no impact on the amount of grant due to the Council.	**- £1.4m**

Fees

The overall fee for the certification of grants and returns was higher than the original estimate because a new claim needed to be certified.

Breakdown of certification fees 2011/12



Breakdown of fee by grant/return

	2011/12 (£)	2010/11 (£)
Teacher's Pension return	3,239	3,100
Local transport Plan – Major Projects	3,384	0
Surestart, Early Years, etc – no auditor certification required in 2011/12	0	4,500
Supervision and reporting	703	*
Total fee	**7,326**	**7,600**

The initial estimated fees for certifying 2011/12 grants and returns was £4,000. The actual fee charged was higher than that estimate.

The main reason for the fee exceeding the original estimate was the need to certify the Local Transport Plan claim, which came to the auditor's attention after the original fee estimate was prepared.

This cost was apportioned across individual grants in previous years.

The fee charged by the Audit Commission for 2011/12 was £6,623. The fee charged by KPMG is £703.

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Nottinghamshire County Council

Report to AUDIT COMMITTEE

27 March 2013

Agenda Item: 8

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT

KPMG - EXTERNAL AUDIT PLAN 2012/13

Purpose of the Report

1. To inform Members of the External Auditors' Audit Plan for their 2012/13 Audit.

Information and Advice

2. The attached report from KPMG sets out the proposed Audit Plan for the 2012/13 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 Sarah Draper, 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 2012/13.

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

KPMG

cutting through complexity™

External Audit Plan 2012/13

Nottinghamshire County Council

February 2013

Contents

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Introduction

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

Scope of this report

We are pleased to be appointed as your external auditors for 2012/13. This document supplements our *Audit Fee Letter 2012/13* presented to you in August 2012. It describes how we will deliver our financial statements audit work for Nottinghamshire County Council ('the Authority'). It and sets out our approach to value for money (VFM) work for 2012/13.

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*, the *Local Government Act 1999* 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.

We will issue an Accounts audit protocol that will give the timetable for our audit, and a list of documents that we will require in order to complete our audit. We will follow this up with a meeting with the Group Manager, Financial Strategy & Compliance to discuss our requirements and any other queries.

Pension Fund

This plan also includes the work on the Authority's Pension Fund which is subject to a separate audit fee. There are no significant planning risks relating to the Pension Fund that we need to draw to your attention.

A separate report on the outcome of the Pension Fund audit will be presented to those charged with governance (the Audit Committee) in September 2013.

Structure of this report

This report is structured as follows:

- Section 2 describes the approach we take for the audit of the financial statements.
- Section 3 explains our approach to VFM work.
- Section 4 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.

Our audit approach

We undertake our work on your financial statements in four key stages during 2013:

- **Planning (January to February).**
- **Control Evaluation (February to April).**
- **Substantive Procedures (July to August). Most Pension Fund work will be done in June.**
- **Completion (September).**

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

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

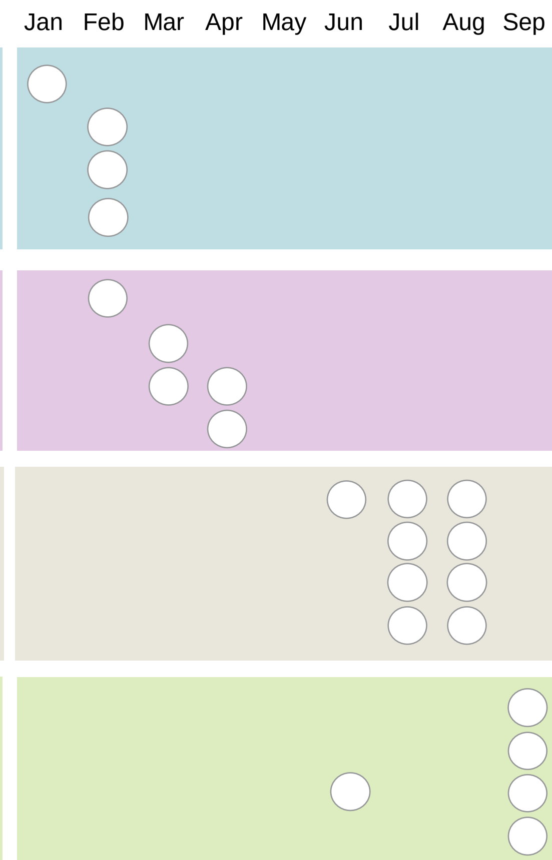
- Evaluate and test selected controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

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.



Our audit approach - planning

During January and February 2013 we complete 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, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January and February 2013. 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's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the business issues facing the Authority, such as the continued pressurised financial environment the Council is working within, its response in terms of achieving its planned savings. We also take into account any findings from previous years audits.

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 Service Director, Finance and his team on a regular 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.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

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.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

Your previous auditors met with the Group Manager , Financial Strategy & Compliance to discuss mutual learning points from the 2011/12 audit. These will be incorporated into our work plan for 2012/13. We will revisit progress against areas identified for development as the audit progresses.

Our audit approach – control evaluation

During February to April 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

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

We will present our *Interim Report* to the Audit Committee in June (if applicable).

Our interim visit on site will be completed during February to April. 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'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.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work that internal audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have discussed with the Head of Internal Audit the principles and timetables for the managed audit process for 2012/13. We will issue a more detailed joint working protocol in 2013/14.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

The auditor raised a number of recommendations in the *Report to Those Charged with Governance (ISA 260 Report) 2011/12* relating to the accounts production process. The most significant of these were to:

- Carry out a post audit review of the new PPE module and valuation process focussing on significant asset disposals and depreciation; and
- Monitor and seek to further improve the payroll and adult care feeder systems reconciliations.

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

Critical accounting matters

We will seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work. We will discuss this with the Group Manager, Financial Strategy & Compliance the work completed to address any specific risks we identified at the planning stage.

Our audit approach – substantive procedures

During July to August 2013 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

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

We will present our *ISA 260 Report* to the Audit Committee in September 2013.

Our final accounts visit on site has been provisionally scheduled for the period July to August. 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 any key risk areas as 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 any key risk areas with the Group Manager, Financial Strategy & Compliance in August 2013, prior to reporting to the Audit Committee in September 2013.

Audit adjustments

During our on site work, we will meet with the Group Manager, Financial Strategy & Compliance 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 to Audit Committee in September 2013.

Our audit approach - other

In addition to the financial statements, we also audit 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 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 18.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

Our audit approach - other

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2.

We confirm our audit team's independence and objectivity is not impaired.

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, 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.

Confirmation statement

We confirm that as of 5 March 2013 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.

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 the Audit Commission, other inspectorates and 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, the Audit Commission, other inspectorates and 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 report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

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 *Interim Audit Report* and our *Report to those charged with governance*. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and 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. If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.

Audit team

Your audit team has been drawn from our specialist public sector assurance department. The Assistant Manager was part of the Nottinghamshire County Council 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 external audit opinion. I will be the main point of contact for the Audit Committee and Directors."

Sarah Draper

Manager

"I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Neil to ensure we add value. I will liaise with the Director of Finance and the Head of Internal Audit."

Peter Coles

Assistant Manager

"I will be responsible for the on-site delivery of our work. I will liaise with the finance team and internal audit. 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 with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outline audit approach. ■ Identify areas of audit focus and planned procedures.	**March 2013**
Control evaluation		
Interim Report (if necessary)	■ Details and resolution of control and process issues. ■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit.	**June 2013**
Substantive procedures		
Reports to Those Charged with Governance (ISA 260 Report)	■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Separate reports for NCC and the Pension Fund audit. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Authority's value for money arrangements.	**September 2013**
Completion		
Auditor's report	■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2013**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2013**

Audit timeline

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

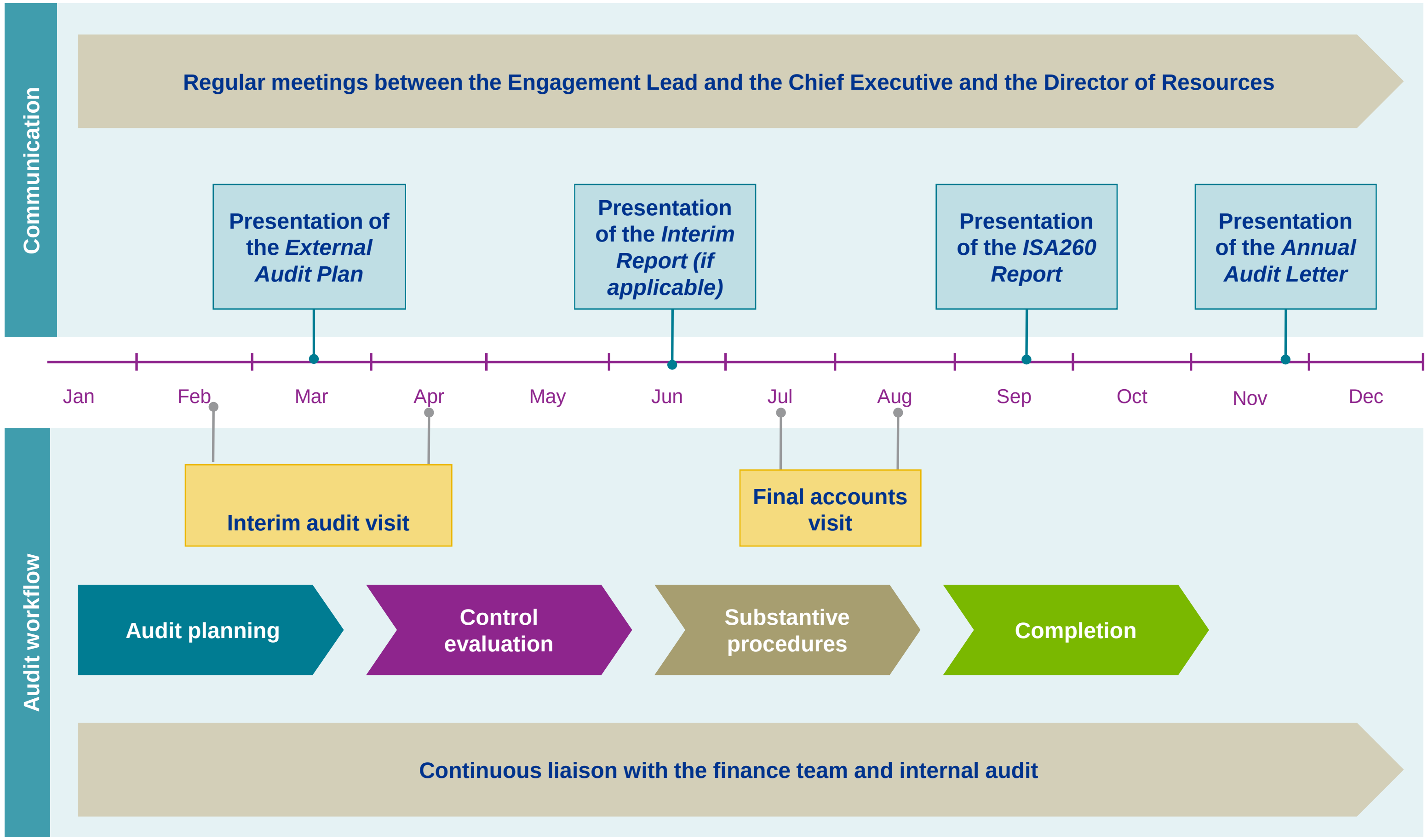
Key formal interactions with the Audit Committee are:

- **March – Financial Statements Audit Plan;**
- **June – Interim Report and start Pension Fund work;**
- **September – ISA 260 Report;**
- **November – Annual Audit Letter.**

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

Our main work on site will be our:

- **Interim audit visits during February to April.**
- **Final accounts audit during July and August.**



Key: ● Audit Committee meetings.
● Audit team on site

Audit fee

The main fee for 2012/13 audit of the Authority is £130,950. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

The Pension Fund fee is £29,927.

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 2012/13* presented to you last year first set out our fees for the 2012/13 audit.

Element of the audit	2012/13 (planned)	2011/12 (actual)
NCC audit fee	£130,950	£218,250
Pension Fund audit fee	£29,927	£44,460

The NCC audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £130,950. This is a reduction of 40 percent compared to the 2011/12 fee**.**

The Pension Fund fee is reduced significantly but also reflects an element related to the fund valuation at 31 March 2012.

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 2011/12;
- 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 2012/13* within your 2012/13 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 and 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.

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 keep the audit fee low. Future audit fees can be 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.

Changes to the audit plan

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

- new significant audit risks emerge and 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 Director of Finance.

Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Emphasis of testing

What we do	Accounts/transactions suited to this testing	For example KPMG's approach to:
Extensive controls testing; Reduced substantive testing	Low value transactions High volume Homogenous transactions Little judgement	Income and debtors Purchases and payables Payroll
Moderate controls testing; Moderate substantive testing	Low/medium value High/medium volume Some areas requiring judgement	Valuation of fixed assets Treasury
Limited controls testing; Extensive substantive testing	High value/ low volume Unusual non-recurring Accounting estimates Significant judgements	Investments and borrowings Provisions

Appendix 2: 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:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- 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 each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: KPMG Audit Quality Framework

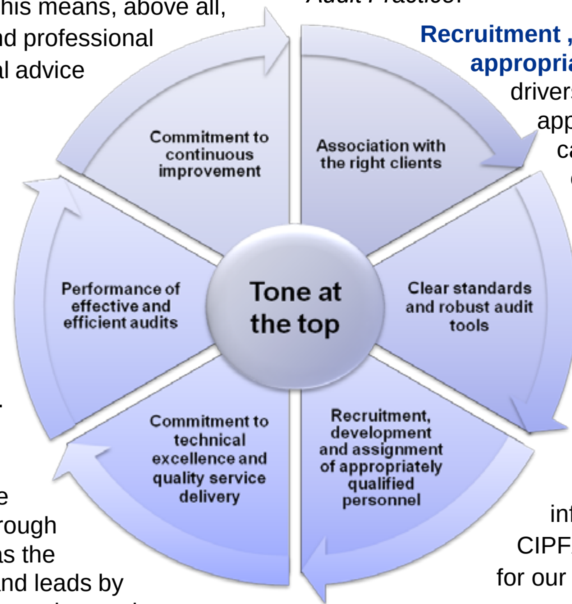
We continually focus on delivering a high quality audit.

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 drives 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.

- 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*.

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

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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 date 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 behaviors in the performance of effective and efficient audits. The key behaviors 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 results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx) . The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.

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cutting through complexity™

Nottinghamshire County Council

Report to Audit Committee

27 March 2013

Agenda Item: 9

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT

UNSATISFACTORY FOLLOW-UP AUDIT REPORT – NATIONAL WATER SPORTS CENTRE

Purpose of the Report

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

Information and Advice

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

3. In each report, an opinion on the controls in place is included, and is one of three standard opinions, as follows:-

   - Sound – there are no weaknesses or only minor weaknesses
   - Satisfactory – most of the arrangements for financial management are effective, but some weaknesses have been identified
   - Unsatisfactory – there is an unacceptable level of risk which requires the prompt implementation of the recommendations to correct the weaknesses identified.

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

5. A follow up audit has recently been completed on the National Water Sports Centre. The audit concluded that substantial progress had been made, however, there remained a key area where control was unsatisfactory. There is a continuing

lack of separation of duties for cash handling and reconciliation. In addition, a shortfall of £1,037.78 was identified in the imprest account balance. A copy of the report is attached as exempt Appendix A.

6. The Group Manager, Cultural and Enrichment Services in Children, Families and Cultural Services (CFCS) has management responsibility for the National Water Sports Centre, and will be attending the meeting with the Service Director, CFCS (Youth, Families and Cultural Services) to explain the issues involved in improving controls over income and the progress made since the report was issued in November 2012.

Other Options Considered

7. This report is for information and noting only.

Reason/s for Recommendation/s

8. To provide information to Members on the work required at the National Water Sports Centre to ensure that effective financial controls are in place.

Statutory and Policy Implications

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

RECOMMENDATION

1) That Members note the proposed actions to be taken to fully implement the outstanding audit recommendations.

Paul Simpson
Service Director (Finance and Procurement)

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

Constitutional Comments

This report is for noting only.

Financial Comments (JMB 22/2/13)

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

Background Papers

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

None.

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