

Audit Committee

Wednesday, 12 June 2013 at 10:30

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

AGENDA

- 1 To note the Appointment at the Annual Meeting of Council of Councillor Keith Walker as Chairman and Councillor Sheila Place as Vice-Chairman of the Committee
- 2 To note the following Membership of the Committee:-
Councillors Reg Adair, Joyce Bosnjak, John Clarke, John Handley, Sheila Place, Darrell Pulk, Alan Rhodes, Ken Rigby and Keith Walker
- 3 Apologies for Absence

- 4 Declarations of Interests by Members and Officers:- (see note below)
(a) Disclosable Pecuniary Interests
(b) Private Interests (pecuniary and non-pecuniary)
- 5 Minutes of the last meeting held on 27 March 2013 3 - 6

- 6 Terms of Reference 7 - 8

- 7 Presentation on the role of the Audit Committee 9 - 12

- 8 Internal Audit Annual Report 2012-13 13 - 28

- 9 Draft annual governance statement 29 - 40

- 10 Internal Audit Plan 2013/14 41 - 50

- 11 KPMG Audit Fee 2013-14 51 - 56

Notes

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

Customer Services Centre 0300 500 80 80

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

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact 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.

Meeting AUDIT COMMITTEE

Date 27 March 2013 (commencing at 10.00am)

membership

Persons absent are marked with `A`

COUNCILLORS

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

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

OFFICERS IN ATTENDANCE

Ruth Rimmington)	Policy, Planning and Corporate Services
John Bailey)	
Nigel Stevenson)	Environment and Resources Department
Derek Highton)	
Steve Bradley)	

ALSO IN ATTENDANCE

Councillor Reg Adair

Neil Bellamy - KPMG

MINUTES

The minutes of the last meeting of the Committee held on 12 September 2012, having been circulated, were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

Apologies for absence were received from:-

Councillor John Clarke
Councillor Ken Rigby

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

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

RESOLVED 2013/01

That the Internal Audit Progress Report be noted.

PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER

RESOLVED 2013/02

1. That Full Council approves that the Authority should comply with the Public Sector Internal Audit Standards.
2. That Full Council approves that the Authority adopt the draft Internal Audit Charter.
3. That the Council's constitution be amended to reflect this.

STATEMENT OF ACCOUNTS 2012/13 – ACCOUNTING POLICIES

RESOLVED 2013/03

That the accounting policies used in creating the Authority's Statement of Accounts for 2012 /13 be approved.

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

RESOLVED 2013/04

That the report be noted.

KPMG EXTERNAL AUDIT PLAN 2012/13

RESOLVED 2013/05

That the External Auditor's Audit Plan for 2012/13 be noted.

EXCLUSION OF THE PUBLIC

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

RESOLVED: 2013/06

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: 2013/07

That Mr Bellamy from KPMG be invited to stay in the meeting for the remaining items of business.

**UNSATISFACTORY FOLLOW-UP AUDIT REPORT – NATIONAL
WATERSPORTS CENTRE - APPENDIX**

RESOLVED: 2013/08

That the report and appendix be noted.

The meeting closed at 10.45 am

CHAIRMAN

**REPORT OF CORPORATE DIRECTOR, POLICY, PLANNING AND
CORPORATE SERVICES****TERMS OF REFERENCE****Purpose of the Report**

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

Information and Advice

2. The current terms of reference for the Audit Committee are:

The exercise of the powers and functions set out below are delegated by the Full Council;

- (a) Responsibility for advising Council on the adequacy of the Council's systems of internal control and overseeing the external auditor's annual audit of the accounts.
- (b) Responsibility for maintaining an overview of the Council's Financial Regulations and anti-fraud and anti-corruption strategies.

Other Options Considered

3. None.

Reason/s for Recommendation/s

4. To assist the Committee in its work.

Statutory and Policy Implications

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

RECOMMENDATION/S

- 1) That the Committee's terms of reference be noted.

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

For any enquiries about this report please contact: Ruth Rimmington, x 73825

Constitutional Comments

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

Background Papers

None.

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

Audit Committee

12 June 2013

Nigel Stevenson & John Bailey
Finance & Procurement Division



**Nottinghamshire
County Council**

Introduction – John Bailey

- Responsible for:
 - Develop and implement Internal Audit Strategy
 - Promote sound financial control
 - Promote effective corporate governance and control
 - Develop and implement strategies to minimise risk of fraud
 - Investigate suspected fraud and failures in internal control
 - Liaise with External Audit to coordinate work
 - Deliver annual audit plan in accordance with professional standards
 - Provide an Annual Report setting out an opinion on the internal control environment
 - Recommendations to improve internal controls to mitigate risk
 - Develop relationships with national and regional bodies to promote Nottinghamshire's interests
 - Support Section 151 officer (Director of Finance) in meeting statutory duties

Introduction – Nigel Stevenson

- Responsible for:
 - The Medium Term Financial Strategy
 - Production of the Council's Budget
 - Financial Monitoring – month end, setting procedures etc.
 - The Final Accounts – Management & Financial Accounts
 - Management of the Capital Programme
 - Management of Pension Fund Investments & Treasury Management
 - Management of Risk & Insurance
 - Ensure effective systems of internal control
 - Set the framework of accounting policy & standards
 - Provision of advice on taxation - VAT
 - Day to day contact - Finance in the Business Support Centre
 - Lead on various projects/programmes – NNDR, localising council tax support etc.
 - Deputy Section 151 Officer

Role of Audit Committee

Advise Council on the adequacy of the Council's systems of internal control

Oversee the external auditor's annual audit

Maintain an overview of the Council's Financial Regulations

Maintain an overview of the Council's anti-fraud and anti-corruption strategies

Any Questions?

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT**INTERNAL AUDIT ANNUAL REPORT – 2012/13****Purpose of the Report**

1. To inform Members of the Head of Internal Audit's Annual Report on the work carried out by Internal Audit in 2012/13, and based on this work, his opinion on the adequacy of the County Council's internal control environment.

Information and Advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The Audit Service worked to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom during 2012/13. One requirement of the Code is that the Head of Internal Audit should provide an annual written report to those charged with governance. The report must:
 - a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment
 - b) disclose any qualifications to that opinion, together with the reasons for the qualification
 - c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
 - d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control (now replaced by the Annual Governance Statement)
 - e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets
 - f) comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.
4. The Head of Internal Audit has set out the work completed during 2012/13, provided an analysis of the Audit Opinions reached in individual audits during the year, identified all those reports where the Opinion was that the level of internal control was unsatisfactory, and come to a conclusion on the overall system of internal control.

5. The Head of Internal Audit's conclusion is that the **overall system of internal control was adequate during 2012/13.**
6. The Annual Report also sets out an analysis of the Audit Section's performance during 2012/13 in Table 3. The performance of the Section has been good during the year, with the number of days completed exceeding the Audit Plan. In addition, the response of managers to the recommendations made has continued to be positive, whilst the Customer Satisfaction Score averaged 1.4 (on a scale where 1 is excellent and 5 is poor).

Other Options Considered

7. The Audit Section worked to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom during 2012/13. This report meets the requirement of the Code to provide an Annual Report. No other option was considered.

Reason/s for Recommendation/s

8. To set out the Annual Report of the Head of Internal Audit for 2012/13.

Statutory and Policy Implications

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

RECOMMENDATION

That Members note the Head of Internal Audit's Annual Report for 2012/13 and comment accordingly.

Paul Simpson
Service Director - Finance and Procurement

For any enquiries about this report please contact:

John Bailey
Head of Internal Audit

Constitutional Comments

The report is for noting only

Financial Comments (JMB 15/5/13)

There are no direct financial implications arising from this report. The net cost of the Internal Audit Section for 2012/13 was approximately £360,000.

Background Papers.

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

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

Electoral Division(s) and Member(s) Affected

All

Internal Audit

Annual Report

2012/13

Purpose of the Report

1. To set out the work carried out by Internal Audit during 2012/13, and based on this work, to provide an opinion on the adequacy of the County Council's internal control environment.

Information and advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to ensure that the Authority's systems and procedures achieve their objectives. In order to identify the key areas to be audited, Internal Audit carries out a risk assessment of the Council's financial and other systems which, following consultation, forms the basis of the annual Audit Plan. Audits during 2012/13 were carried out in accordance with the CIPFA Code of Practice for Internal Audit, which defines the standards that should be followed to achieve best professional practice.

Summary of Internal Audit Work for 2012/13

4. The audits completed during 2012/13 covered a broad range of the Authority's services, systems and processes, with reviews carried out at establishment, divisional, departmental and corporate levels. The time spent on audit work compared to that planned is shown in Appendix 1. The total time delivered on Audit work (2167 days) is above the original plan (2142 days). This is due to there being no vacancies during the year and a below average level of sick leave. There were 144 audit jobs completed during the year on County Council systems and procedures.
5. Of the 144 County audit jobs, 46 were on areas where the usual audit opinion is not provided, for example on irregularities, grant claims, provision of detailed advice on changes in procedures and work requested by departments. This is high compared to recent years, and reflects an increase in the number of irregularities investigated, as well as the provision of detailed advice and assistance with the new Business Management System. The remainder (98 reports) were issued on the Authority's operations and contained an internal audit opinion on the financial controls and procedures in place, categorised as follows:-

Sound – there are no weaknesses or only minor weaknesses

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

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

6. A detailed analysis of all the reports issued during 2012/13 is set out in Appendix 2. Table 1 below analyses the opinions given on the individual reports by department.

Table 1: Analysis of Audit Opinions during 2012/13

Department	Opinion			Total
	Sound	Satisfactory	Unsatisfactory	
Children Families and Cultural Services	2	5	3	10
Schools	24	36	5	65
Adult Social Care, Health and Public Protection	-	3	2	5
Environment and Resources	3	7	4	14
Policy, Planning and Corporate Services	-	3	1	4
TOTALS	29	54	15	98
Percentage	30%	55%	15%	100

7. There were 775 individual recommendations for change during the year. The managers of the service are required to formally respond to each recommendation and the vast majority of recommendations (98%) were agreed for implementation.
8. From the table, it can be seen 83 of the 98 areas reviewed during 2012/13 were found to be sound or satisfactory. This equates to 85% of the areas reviewed. There were 15% of areas audited which were categorised as unsatisfactory. The details of these reports are set out in Appendix 3. These audits revealed weaknesses requiring urgent action to strengthen the systems and procedures in place. The weaknesses identified covered a diverse range of issues including the need for:

- Training and compliance with Financial Regulations
 - Failure to monitor and control central systems
 - Failure to adhere to agreed procedures
 -
9. The trend in audit opinions over the last 5 years is shown in the table 2 below.

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

Year	Number of reports	Opinion Sound	Satisfactory	Unsatisfactory
2008/09	120	31 (26%)	79 (66%)	10 (8%)
2009/10	155	21 (13%)	116 (75%)	18 (12%)
2010/11	150	40 (27%)	100 (67%)	10 (7%)
2011/12	133	43 (32%)	76 (57%)	14 (11%)
2012/13	98	29 (30%)	54 (55%)	15 (15%)

10. As can be seen from the chart above, the number of unsatisfactory audit opinions during 2012/13 has increased compared to the previous year. The Authority has undertaken significant changes during 2011 and 2012, including the introduction of the new Business Management System (BMS), reorganisation of departments, services and organisational structures, with the loss of a number of experienced employees.
11. The 46 special projects during the year covered a range of issues including:-
- Attending workshops on the new Business Management System modules and providing advice and feedback on proposed control systems and systems documentation
 - Advice on the implementation of Lean plus reviews
 - Advice on the new Civica Income system
 - Provision of advice on cheque scams
 - Follow up of information arising from the National Fraud Initiative
 - Carrying out a number of grant audits
 - Work on an increased number of suspected irregularities and whistleblowing complaints

Annual Governance Statement

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

to the assurance process detailed in the Annual Governance Statement.

13. The individual audit opinions set out in paragraph 6 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. As 85% of the audits undertaken identified that appropriate controls were found to be in place, Internal Audit's overall opinion is that the Authority's system of internal control is adequate. However, the fact that 15% of systems or procedures were found to be unsatisfactory is a cause for concern, and it is essential that the control weaknesses in these areas are addressed. Follow up audits will be carried out to ensure that the recommendations made have been implemented.

Internal Audit Performance Indicators

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

Table 3: Analysis of Performance Indicators 2012/13

Indicator	Target	Outcome
Comply with Audit Code of Practice	Substantial compliance	Achieved
Completion of Audit Plan:- Number of days Audits completed	90% 90%	101% 98%
Customer Satisfaction score	Under 2	Average 1.4
Recommendations accepted	95% acceptance	98% accepted
Productive time	Over 70%	70% achieved
Net audit cost per £1m turnover for 2012/13	£650	£313
External audit review	Positive	Positive

15. Overall, performance during the year has been above target. The number of audit days provided exceeded the planned days. The number of audit jobs completed was slightly below plan due to the focus on more complex areas and irregularities. There are two main reasons for the good performance. Firstly, the Audit Section has maintained a full complement of staff throughout the year, with no vacant posts. Secondly, there has been a low incidence of sickness absence.
16. During the year, the section has continued to use a Customer Satisfaction questionnaire, and has maintained very positive results. The vast majority of recommendations made have been agreed for implementation (98%).

17. The net audit cost per £1m turnover for 2012/13 was £313, compared to a county council average of £433. The net cost in 2013/14 will be similar to 2012/13.

Quality Assurance Programme

18. The CIPFA Code of Practice requires Internal Audit Sections to carry out a Quality Assurance Programme to ensure that appropriate quality standards are being applied. The review for 2012/13 was positive for the files reviewed. A small number of issues were identified on the documentation of supervision and signing and dating working papers. These will be addressed.

Conclusion

19. The work undertaken by Internal Audit during 2012/13 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. However, the fact that 15% of systems or procedures were found to be unsatisfactory is a cause for concern, and it is essential that the control weaknesses in these areas are addressed.

John Bailey BSc CPFA
Head of Internal Audit
Nottinghamshire County Council

INTERNAL AUDIT ANNUAL PLAN REPORT 2012/13**PERFORMANCE AGAINST PLAN**

	Annual Plan Days	Actual Days	Variance Days
Cross cutting work	247	248	+1
Children and Young People	602	686	+84
Adult Social Care and Health	273	216	-57
Environment and Resources	595	576	-19
Policy, Planning and Corporate Services	106	115	+9
Contingency	100	100	-
County Council Total	1923	1941	+18
External Contracts	219	226	+7
OVERALL TOTAL	2142	2167	+25

APPENDIX 2

INTERNAL AUDIT PLAN 2012/13 Audits Completed 1 April 2012 to 31 March 2013

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
Meals at Home Income – 2 nd follow up	Satisfactory	-	2	-	-	2	-
i-Work follow up	Satisfactory	-	3	1	-	3	1
Sub Total		4	14	6	4	14	6
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
Nursery Education Funding	Satisfactory	-	3	1	-	3	1
PFI Monitoring	Sound	-	1	-	-	1	-
Libraries	Satisfactory	-	2	2	-	2	2
Sub Total		9	44	14	9	43	14

Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
School Audits Secondary Schools (10 final reports issued) Primary Schools (55 final reports issued)	Overall, five unsatisfactory, 36 satisfactory and 24 sound	5 19	88 353	18 105	4 19	86 347	18 103
Environment and Resources Mobile Phones Desktop Management – follow up Purchasing and Credit Cards Geographic Information System Waste Management Concessionary Travel ICT Service Level Management Car Parking Enforcement ICT Environmental Controls Car Loans Careworks system Cleaning Services allegations Rechargeable Works Orders Flood Risk Management	Unsatisfactory Satisfactory Unsatisfactory Satisfactory Satisfactory Satisfactory Sound Sound Sound Unsatisfactory Satisfactory Unsatisfactory Satisfactory Satisfactory	- - 2 - - - - - - - - 1 - - -	4 3 2 2 2 1 - - - 13 2 7 5 2	- - 3 1 7 2 1 - 1 4 - - - 1 -	- - 2 - - 1 - - - - 1 - - - -	4 3 2 2 2 1 - - - 13 2 7 5 2	- - 3 1 7 2 1 4 - - - - - - 1
Sub Total		3	43	20	3	43	20

Policy, Planning and Corporate Services							
Internet Content	Satisfactory	-	3	1	-	3	1
Improvement Programme	Satisfactory	-	7	6	-	7	6
Strategic Plan Performance Indicators	Unsatisfactory	3	2	4	2	2	4
Employees	Satisfactory	-	4	-	-	4	-
Sub Total		3	16	11	2	16	11
<u>TOTAL</u>		43	558	174	41	549	172

Audit Reports issued during 2012/13 which had an “Unsatisfactory” Audit Opinion

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 asked that a working group be established to eliminate cash income collection from the system. This has been implemented.

ASC 1220 – Direct Payments Monitoring. Although significant progress had 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 were 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 were relatively low, the potential for abuse was high. Seventeen recommendations were 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 had been made with the implementation of the recommendations made, a key weakness remained, in the lack of separation of duties for cash handling and reconciliation. Progress on this issue was reported to the Audit Committee in March 2013.

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 scheme's rules and criteria. Whilst these were relatively minor in nature, they were significant in number and demonstrated unsatisfactory control.

E&R 1308 - Cleaning Services Allegations. Although there was no evidence to substantiate the allegations, control weaknesses were identified in a number of areas, including confirming that contractual hours have been worked and records maintained for recruitment.

PPCS 1305 – Strategic Plan Performance Indicators. A number of the agreed Performance Indicators did not have a target set against them or information was not being collated. A revised performance management framework is being developed, following a peer review. The new framework will address the recommendations made.

School budget share reports. Five 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.

REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT**DRAFT ANNUAL GOVERNANCE STATEMENT – 2012/13****Purpose of the Report**

1. To inform Members of the proposed Annual Governance Statement 2012/13 and to invite Members to consider and approve the Statement prior to its accompanying the Statement of Accounts 2012/13.

Information and Advice

2. The Accounts and Audit (England) Regulations 2011 require the Authority to review the effectiveness of its system of internal control and publish an annual governance statement, prepared in accordance with proper practices in relation to internal control.
3. Using guidance developed by the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives, an Annual Governance Statement has been produced and is attached. It has been compiled by a small corporate group which has considered the governance arrangements in place.
4. As the Statement covers corporate governance and risk management issues, it needs to be referred to Full Council which will be done as part of the approval process for the Statement of Accounts 2012/13.

Other Options Considered

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

Reason/s for Recommendation/s

6. To set out how the Authority has met its' governance responsibilities for 2012/13.

Statutory and Policy Implications

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

RECOMMENDATION

That the Committee endorses the Annual Governance Statement 2012/13 and makes any comments or recommendations which it considers ought to be included in the report which is required to be taken to the next appropriate Council meeting, to accompany the Statement of Accounts 2012/13.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:

John Bailey
Head of Internal Audit

Constitutional Comments (KK 20/5/13)

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

Financial Comments (JMB 15/5/13)

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

Background Papers

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

None.

Electoral Division(s) and Member(s) Affected

All

NOTTINGHAMSHIRE COUNTY COUNCIL
ANNUAL GOVERNANCE STATEMENT 2012/13

1. SCOPE OF RESPONSIBILITY

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

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

The County Council has approved and adopted a local code on corporate governance, which is consistent with the principles of the CIPFA/SOLACE (Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives) Framework *Delivering Good Governance in Local Government*. This statement explains how the Authority complied with the code during 2012/13 and also meets the requirements of regulation 4 of the Accounts and Audit Regulations (England) 2011 in relation to the publication of an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework is made up from the systems, processes, culture and values put in place by the Authority. The Authority uses this framework to direct and control its work and ensure that it engages with, leads, and accounts to the community. The framework enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

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

impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the County Council for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

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

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

The Council's Strategic Plan for 2010-14 was approved in 2010. The Plan:-

- Provided a clear statement of the Authority's priorities, promises and values.
- Enabled agreed political objectives and statutory requirements to drive the Authority's activities.
- Enabled the communication of the Authority's priorities to the community of Nottinghamshire, partner organisations and staff.
- Provided a broad framework of objectives and performance indicators, to ensure effective performance management.

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

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

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

The Strategic Plan provides the basis for future corporate and service planning over the period 2010 to 2014. Progress on the Authority's achievements is assessed by the monitoring of agreed key actions and meeting performance indicator targets. Performance is reported quarterly to the Performance Improvement Board, who are mandated by the Corporate Leadership Team to manage performance on their behalf. An annual report on performance for 2012/13 was presented to Policy Committee in May 2013. The Authority has a performance management framework which sets out in detail the individual factors that are required to manage performance and how they work together in the Authority. This framework is currently being reviewed to reflect

the changing political and economic climate in which the Authority now operates. This will be presented to the Corporate Leadership Team and Policy Committee.

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

The Authority carries out annual budget consultations. A Citizens Panel, 'Nottinghamshire Listens', made up of approximately 6,000 people is in place and has been used to engage with citizens throughout the County on a wide range of issues. Progress towards delivering the Strategic Plan's priorities and objectives is monitored quarterly and reported to full Council every 6 months through the lead member for performance.

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

The Constitution sets out how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. There was a significant change in the Authority's constitution in 2012, with a move to a committee structure of decision making. The Authority established service committees for each of the key areas of service, in addition to an overarching Policy Committee and Full Council.

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

Codes of Conduct, for both Members and staff, are contained within the Constitution together with the Code on Member and Officer Relationships. The Constitution is posted on the Council's website. The Authority's Standards Committee was dis-continued as part of the new committee structure, with the functions of the Committee passing to other committees. Responsibility for dealing with complaints against members passed to the Monitoring Officer, with the exception of any final hearing which would be in front of Policy Committee.

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

The Monitoring Officer is responsible for keeping the Constitution under review and reporting any proposed amendments to Council. The most recent review was in February 2013. The Authority's Risk Register is reviewed at each of the five meetings a year of the Risk, Safety and

Emergency Management Board to determine whether additional steps are required to mitigate key risks. As part of the compilation of this statement, assurance has been sought to confirm that each of the top risks facing the Authority are kept under review by the relevant Action Manager and reported to the Risk Owner.

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

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

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

The Chief Financial Officer for the Authority is the Service Director – Finance and Procurement. This post reports to the Corporate Director for Environment and Resources who is a member of the Leadership Team. Although the Chief Financial Officer is not a member of the Leadership Team, a number of measures have been put in place to ensure that the impact is the same. These include providing details of all issues discussed at Leadership Team to the Chief Financial Officer, who has the right to attend the meeting if he considers it necessary. In addition, the Chief Financial Officer will attend whenever material business decisions are made. The Authority have set up the Business Support Centre which manages financial transactions on behalf of the Authority, including payroll, pensions and income transactions. As the Business Support Centre does not report to the Chief Financial Officer, controls have been established to ensure that the Chief Financial Officer can secure the promotion and delivery of good financial management in these areas. The Chief Financial Officer is professionally qualified and has experience from a range of organisations.

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

In its Review of Internal Audit, completed in 2008, the External Auditor commented that the Audit Committee was carrying out the functions expected of it and that its role was in line with the expectations of the CIPFA Code. The core functions relate to the review of Internal and External Audit work, the effectiveness of the Authority's control

environment, the review of the annual assurance statement, scrutiny of Treasury Management and the review of the financial statements. These functions are covered by the Audit Committee.

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

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

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

The Authority's Whistleblowing Policy was reviewed by the Standards Committee during 2007/8 and a number of changes made. These were approved by the County Council and the new Policy was implemented from 1 February 2008. The Authority's complaints procedure is well established and is monitored by the Policy Committee. The Policy Committee receives an annual report on the discharge of the Authority's duties under the Whistleblowing Policy.

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

During 2012/13 the member development programme continued to respond to changing national and local policy. Elections were held in May 2013 resulting in a number of new Members being elected. A comprehensive induction programme was completed to provide information and briefings on a range of issues to new and returning Members. All officers, including senior officers, are subject to annual Performance and Development Reviews. These reviews specifically identify and monitor development and training needs in relation to the individual employee's role. During the year, a new Competency Framework was used, which set out the observable skill levels and behaviours required of every employee at each tier of the organisation.

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

Communication channels include the County News civic newspaper delivered to every household in the County, the County website and targeted audiences e.g. service user and carer groups. The Budget Conversation campaign was launched on 5th November 2012 and was designed to gauge the public's view services which are important to them and to gain an understanding of their general priorities for the future. The campaign took place in County News, on-line, in libraries and county information points across Nottinghamshire, by holding face to face meetings and workshops and by attending events.

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

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

4. REVIEW OF EFFECTIVENESS

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

Throughout 2012/13, the Authority has maintained and reviewed the effectiveness of the governance framework. In particular:-

- a) The County Council has received and considered a number of reports, including:-
 - Arrangements for Standards and Amendments to the Constitution
 - Annual Report of Scrutiny 2011/12
 - Statement of Accounts 2011/12
 - 2012 Nottinghamshire Annual Residents' Satisfaction Survey
 - Budget Report 2013/14 and Medium Term Financial Strategy 2013/14 to 2016/17
 - Changes to the Governance Arrangements
 - Review of the Committee System.

- b) Policy Committee has considered and approved a number of reports in its role as the committee responsible for policy development and approval, including:-
- Annual Performance Report 2011/12
 - Improvement Programme Annual Report and update
 - Revenue Budget Proposals 2013/14
 - Six Month Strategic Performance Report 2012/13
 - Outcomes from the Complaints Process 2011/12
 - Feedback from the Corporate Peer Challenge.
- c) The Audit Committee have considered a wide variety of issues including:-
- Internal Audit Annual Plan 2012/13
 - Statement of Accounts 2011/12
 - Annual Governance Statement
 - Public Sector Internal Audit Standards and Audit Charter
 - Internal Audit Annual Report
 - KPMG External Audit Plan 2012/13
- d) Internal Audit has undertaken planned reviews of internal control procedures across all departments and across a range of functions in the Authority. Each review contains an opinion on the internal controls in place and Internal Audit's overall opinion of the Authority's system of internal control, based on the audits completed in 2012/13, is that it is adequate.
- e) External Audit's Annual Audit Letter 2011/12, stated that the Auditor issued an unqualified opinion on the County Council's 2011/12 accounts. The accounts were presented on time and complied with the requirements of the newly introduced International Financial Reporting Standards. The accounts were free from material error and no significant weaknesses in internal control arrangements were identified. The Auditor also concluded that the Council had put in place proper arrangements for securing value for money.

5. SIGNIFICANT GOVERNANCE ISSUES

The Authority faced a challenging year in 2012/13 as it sought to manage budget reductions, increasing demand for some key services and consolidate significant changes made to systems, structures and services in previous years, simultaneously. The environment for 2013/14 and beyond will continue to be extremely challenging with a need to bridge a funding gap of £133 million over the Medium Term. However, the Authority has recent history of achieving this scale of significant cost reduction and service re-alignment and is developing plans to address the challenge.

County Council elections took place on 2nd May 2013, resulting in a change in Administration and a new Council Leader.

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

- a) Potential for continuing reduction in Government Funding. Whilst there is an element of certainty regarding the anticipated reduction in Grant for 2013/14, the situation beyond remains unclear and is further complicated by changes to local government funding and other policy proposals that have far reaching implications for the Council's service and financial planning.
- b) The Business Management System (BMS) was implemented in November 2011 and continues to be developed. A continuing focus will be needed to ensure that the many benefits available from the system are realised.
- c) Responsibility for public health transferred to local authorities from April 2013. Continuing focus will be needed to ensure that it integrates effectively with the Authority's strategy for serving the people of Nottinghamshire.
- d) The enactment of the Local Government Finance Act 2012 added additional complexity in the funding of local authorities with the repatriation of business rates and the introduction of localised council tax support schemes. Joining the Nottinghamshire Pool arrangement has both potential benefits and risks. Continuous management of the implications of the changes and of the risks involved in pooling will be needed to ensure the benefits available from pooling are achieved.

The Audit Committee reviewed the governance framework detailed in this statement at their meetings on 12 June 2013. We are aware of the steps that are being and will be taken to address the above significant governance issues and we are satisfied that these are appropriate. We will monitor their implementation during the course of 2013/14.

Signed:.....

LEADER

Signed:.....

CHIEF EXECUTIVE

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

1. To inform Members of the proposed Internal Audit Plan for the 2013/14 financial year.

Information and Advice

2. The attached Audit Plan sets out the proposed coverage of the Authority's systems and procedures for the period 2013/14. The Plan represents the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control.
3. Discussions about the content of the Audit Plan have been held during February and March at departmental leadership teams. Following on from this, more detailed one-to-one discussions have taken place with Service Directors. The Audit Plan is implemented flexibly, and will continue to change to ensure that any emerging priorities during the year are addressed.
4. An increased allocation of time has been made for cross-cutting issues in 2013/14. A number of High Risk areas will be reviewed including budgetary control, performance management, information governance, use of agency staff and consultants, and counter-fraud work.
5. The role of Internal Audit is to provide management with an objective assessment of whether its systems and controls are working properly. It provides an independent and continuous appraisal of the Authority's activities and in particular focuses on the internal controls established by the organisation's managers. The Section's aim is to complete the programme of planned work in order to express an overall view on the adequacy and effectiveness of the Authority's internal control systems.
6. This work is critical in enabling the County Council's External Auditors to form a view on the overall adequacy of the Council's financial controls, which in turn supports their assessment of whether or not the County Council's annual statement of accounts gives a "true and fair view," and is also a key contributory factor in the preparation of the Council's Annual Governance Statement.

7. The Plan has been compiled in accordance with the Public Sector Internal Audit Standards, which came into force from 1st April 2013. A detailed breakdown of the plan is shown in the attached appendices, and is summarised in the table below.

Table 1: Summary of Internal Audit Plan for 2013/14

Department	Days	Number of Audits			
		High Risk	Med Risk	Low Risk	Total
Cross-cutting	397	21	1	-	22
Children, Families and Cultural Services (excluding schools)	219	5	7	-	12
Schools	403	-	64	-	64
Adult Social Care, Health and Public Protection	260	6	9	-	15
Environment and Resources	470	17	4	-	21
Policy, Planning and Corporate Services	80	-	3	-	3
Fraud and Irregularity work	100				
Total County Council	1,929	49	88	-	137
External Clients (Work for Fire, Academies and Gedling BC)	196				
	2,125				
Overall Total					

8. As can be seen from the above, a total of 2,125 days are planned for 2013/14 of which 1929 (91%) will be spent on the Authority's systems and procedures. The remaining 196 days will be spent on external contracts providing an internal audit service to Notts Fire and Rescue Service, work for Gedling Borough Council and work in academy schools. External contracts help the section maintain high quality services and costs are fully recovered.
9. The Audit Plan is similar in terms of the number of days to that in 2012/13, following a number of reductions in previous years. However, there is a change to focus on fewer, more complex, cross-cutting areas. For example, instead of looking at Budgetary Control in individual departments, a more holistic approach will be adopted across the organisation. Table 2 sets out planned coverage in previous years, as an indicator of the changing plans over the years.

Table 2: Changes in the Planned Audit Days, Planned Jobs, Council Gross Turnover and Internal Audit cost per £ million turnover between 2008/09 and 2013/14

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

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

Other Options Considered

11. This report is for information and noting only.

Reason/s for Recommendation/s

12. To provide information to Members on the Internal Audit Plan of work for 2013/14.

Statutory and Policy Implications

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

RECOMMENDATION

1) That Members note the report.

Paul Simpson
Service Director (Finance and Procurement)

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

Constitutional Comments

This report is for noting only.

Financial Comments (JMB 2/5/13)

The net budget for the provision of Internal Audit to the County Council for 2013/14 is £360k. This comprises gross expenditure of £533k and income of £173k.

Background Papers

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

None.

Electoral Division(s) and Member(s) Affected

All

Cross cutting areas (i.e. across departments)

Area for audit	Risk assessment	Days planned	Likely scope
Business System development			
Management Phase II			
BI and Reporting	High	5	Input to revised budget forecasting
Property rents	High	10	Compliance test process maps
Procurement cards	High	10	Follow up unsatisfactory opinion
Supplier self service	Medium	10	Testing of key controls
Pensions payroll	High	5	Complete 12/13 testing
External payrolls	High	10	Assurance testing
E-recruitment / e-bulk	High	10	Testing of key controls
BMS – operational reviews			
Payroll	High	15	Compliance test process maps
Pensions	High	20	Input to process and compliance test
Accounts Payable	High	15	Compliance test process maps
Accounts Receivable	High	10	Compliance test process maps
Accounting Clearing House	High	15	Review of key controls
Competency Centre	High	10	Compliance test process maps
Budgetary control	High	35	End to end review of target improvements
Performance Management	High	35	Corporate and departmental arrangements for managing performance
Information Governance	High	35	Council wide review of controls over information in all formats
Counter fraud work	High	42	Compilation and submission of National Fraud Initiative data
PCI compliance	High	5	Provide advice on PCI compliance Group
Agency Staff and Consultants	High	35	Review compliance with revised procedures
Car Loans – follow up	Follow up	10	Follow up report E&R 1305
Corporate Governance and Scrutiny	High	15	Complete review commenced in 2012/13
Transformation Boards	High	20	Review effectiveness of corporate and departmental Boards
Lean+ Service Reviews	High	20	Advise on re-design of systems and processes
Total days		397	

Children Families and Cultural Services

Area for audit	Risk assessment	Days planned	Likely scope
Children's Social Care			
External Placements	B / Fwd	2	Review of risk factors and internal control
Review of fieldwork	Medium	15	
Children's disability service	Medium	15	
Secure Accommodation	Medium	15	
Education Standards and Inclusion			
Special Educational Needs and Disability funding	Medium	15	Funding and commissioning review
SEND independent special schools	Medium	15	Review of risk factors and internal control
Joint use facilities	Medium	15	Review of funding and internal control of risks
Review of business development and support functions	High	15	Review of risk factors and internal control
Youth, Families and Culture			
Libraries and Archives	High	15	Review of risks and internal control
Country Parks	High	12	As above
School Capital Programme	High	15	As above
Youth Service and Youth Clubs	Medium	15	As above
Other Work			
School Funding	High	15	Formula compliance and impact on ISB / non ISB
Grant Claims and Audit Certificates	N/A	10	To be determined as required
Provision of advice and liaison with department		30	
Schools			
Audit of 64 schools	Medium	403	Review range of factors relating to School Budget Share
Total days		622	

Adult Social Care, Health and Public Protection

Area for audit	Risk assessment	Days planned	Likely scope
Personal Care and Support – Younger Adults In-house Day Care Service Mental Health Services Supported Living	High High Medium	15 15 15	Review of risk and Internal Control Review Implementation of new arrangements Review of risk and Internal Control
Personal Care and Support – Older Adults In-house Care and Support Service	Medium	15	Review of risk and Internal Control
Promoting Independence and Public Protection Services to Self-Funders Emergency Planning Registration Services	Medium Medium Medium	15 15 15	Effectiveness of support and consequential risk Review of risk and Internal Control Currently in progress
Joint Commissioning, Quality and Business Change Commissioning / Contract Compliance Review of Business Support Safeguarding Financial Assessments – Care Homes County Enterprise Foods Safeguarding Vulnerable Adults Direct Payments follow up Financial Assessments – Personal Budgets Integrated Community Equipment Service Home-based Service Tender	High High Medium Medium High N/A Medium Medium High	15 15 15 15 15 5 5 5 4	Review of risk and Internal Control Review of risk and Internal Control Review of risk and Internal Control Review of risk and Internal Control Review of risk and Internal Control Follow up monitoring work Complete 2012/13 work Complete 2012/13 work Complete 2012/13 work
Other Work Demographic Modelling Framework data quality	High High	8 15	In progress Review of risk and Internal Control

Grant work and audit certificates	N/A	8	To be determined as appropriate
Provision of advice and liaison with department	N/A	30	Provision of ongoing advice on internal control / systems
Total days		260	

Environment and Resources

Area for audit	Risk assessment	Days planned	Likely scope
Highways Highway Maintenance	High	20	Operation of new maintenance contract
Highways and Transport Capital schemes	High	15	Contract audit of capital schemes
Highways Services	High	15	Fleet management control
Street Lighting follow up	N/A	10	Follow up recommendations
Finance Medium Term Financial Strategy	High	15	Review of financial horizon planning
Pension Fund Management	High	15	Governance, policy, monitoring and control
VAT and tax planning	High	15	Accounting for VAT and tax returns
Transport, Property and Environment Building Maintenance Framework Contracts	High	20	Review partnership work
Building Operations Group	High	15	Review of risk and Internal Control
Waste Management	High	15	Review of performance element of PFI contract
Bus Service Operators grant	N/A	5	Grant audit
Facilities Management	Medium	20	Review of risk and Internal Control
Energy Management and Carbon Reduction	Medium	10	Review against CIPFA guidance
Schools Catering follow up	N/A	10	Follow up recommendations
Estate Management	High	10	Continuing from 2012/13 plan
ICT – Infrastructure Network Controls	High	20	Network controls, wireless and voice networks, Citrix
Service Continuity	Medium	15	Backup and disaster recovery support for service disruption

Internet Controls	High	20	Internet and email access and control
Malware Management	High	15	Control against virus threats and attacks
Access Controls	High	15	Determination, authorisation and provision of access
Active Directory	Medium	15	Review of risk and Internal Control
Emerging Risks		25	Input to developments in ICT and advise on control implications
ICT – Applications			
Abacus	High	15	Review of risk and Internal Control
Libraries web access	High	15	Review of risk and Internal Control
EDRMS	High	8	Ongoing control advice to implementation team
Developmental Projects	N/A	15	Provide advice on projects – Frameworki and Infocare
Mobile Phones follow up	N/A	10	Follow up recommendations
Social Care Records follow up	N/A	10	Follow up recommendations
Other Work			
Managed Audit work		15	Work with External Audit
Liaison with other authorities		12	Share experience / concerns
Provision of advice and liaison with department		35	Provide advice on control issues
Total days		470	

Policy Planning and Corporate Services

Area for audit	Risk assessment	Days planned	Likely scope
Community Safety and Partnerships	Medium	15	Review of community safety partnerships
Members Allowances and Divisional Funds	High	15	Comprehensive check of allowances paid
Broadband Project Grant	N/A	10	Certification of grant monies to meet BDUK regulations
Grant Aid follow up	N/A	10	Follow up recommendations
Strategic Plan PI's follow up	N/A	10	Follow up recommendations
Provision of advice and liaison with department		20	Provide advice on internal control issues
Total days		80	

REPORT OF SERVICE DIRECTOR - FINANCE AND PROCUREMENT**KPMG - AUDIT FEES 2013/14****Purpose of the Report**

1. To inform Members of the proposed KPMG audit fees for 2013/14.

Information and Advice

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

Statutory and Policy Implications

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

RECOMMENDATION/S

5. That Members note the proposed KPMG audit fee levels and comment accordingly.

Paul Simpson
Service Director (Finance and Procurement)

For any enquiries about this report please contact:
Nigel Stevenson

Constitutional Comments

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

Financial Comments

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

Background Papers

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

Electoral Division(s) and Member(s) Affected

All



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

Our ref NB/NCC/1314/01

25 April 2013

Dear Mick

Annual audit fee 2013/14

I am writing to confirm the audit work and fee that we propose for the 2013/14 financial year at Nottinghamshire County Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

As we have not yet completed our audit for 2012/13 the audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative audit and certification fees for 2013/14 are shown below. All fees are subject to VAT.

Audit area	Planned fee 2013/14	Planned fee 2012/13
Code of Audit Practice audit fee – Nottinghamshire County Council	£130,950	£130,950
Audit of Pension Fund	£29,926	£29,927
Certification of grant claims & returns	£4,400	£1,950

The fee for the Code of Practice audit and the audit of the Pension Fund is unchanged from the planned fee for 2012/13 and is in line with the scale fee recommended by the Audit Commission

The Audit Commission has calculated the composite indicative fee for the certification of grant claims and returns. This based on the Council requiring specific grants claims and returns to be certified. I will write to you later this year with more details on our certification work.

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting

working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the 2012/13 audit. A more detailed audit plan will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the S151 officer and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

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

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

The key members of our audit team for the 2013/14 audit are:

Name	Role	Contact details
Sarah Draper	Manager	sarah.draper@kpmg.co.uk 0115 945 4479
Sayeed Haris	Assistant Manager	sayeed.haris@kpmg.co.uk 0116 256 6061

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

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

Yours sincerely



Neil Bellamy
Director

Appendix 1 - Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2013/14 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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

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

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

Appendix 2 - Planned outputs

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

Planned output	Indicative date
External audit plan	February 2014
Interim audit report – if required	April/May 2014
Report to those charged with governance (ISA260 report)	September 2014
Pension Fund Audit Highlights memorandum	September 2014
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2014
Opinion on Whole of Government Accounts return / NHS Summarisation schedules	September/October 2014
Annual audit letter	November 2014
Certification of grant claims and returns	January 2015

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

1. To consider the Committee's work programme for 2013/14.

Information and Advice

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

Other Options Considered

5. None.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

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

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

RECOMMENDATION/S

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

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

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

Constitutional Comments (HD)

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

Financial Comments (PS)

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

Background Papers

None.

Electoral Division(s) and Member(s) Affected

All

AUDIT COMMITTEE - WORK PROGRAMME

<u>Report Title</u>	<u>Brief summary of agenda item</u>	<u>For Decision or Information</u>	<u>Lead Officer</u>	<u>Report Author</u>
June 2013				
Internal Audit Annual Report 2012/13				
Draft Annual Governance Statement 2012/13				
Internal Audit Plan 13/14				
(KPMG) Annual Audit Fees 2012/13				
11 September 2013				
Financial Regulation waivers	To provide details of waivers made to Financial Regulations during 2012/13	Information	Steve Carter	Steve Carter
4 December 2013				
Internal Audit six month progress report	Analysis of work completed to end of September, significant issues identified and monitoring of internal audit performance against targets	Information	John Bailey	John Bailey

