

Audit Committee

Wednesday, 07 September 2016 at 10:30

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

AGENDA

1	Minutes of the last meeting held on 8 June 16	3 - 6
2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
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Notes

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in

the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

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

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

- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.
- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>

Meeting AUDIT COMMITTEE

Date 8 June 2016 (commencing at 10.30 am)

membership

Persons absent are marked with `A`

COUNCILLORS

Keith Walker (Chairman)

Reg Adair	A	David Kirkham
John Clarke		Rachel Madden
John Handley		Liz Plant
Stan Heptinstall		John Wilmott

ALSO IN ATTENDANCE

Tony Crawley - KPMG LLP

OFFICERS IN ATTENDANCE

Sara Allmond)	
Nigel Stevenson)	
Rob Disney)	Resources
Glen Bicknell)	
Keith Palframan)	
Clare Winter)	
Sue Travis)	

APPOINTMENT OF CHAIRMAN AND VICE-CHAIRMAN

RESOLVED 2016/008

That the appointment of Councillor Keith Walker as Chairman and Councillor Sheila Place as Vice-Chairman by the County Council of 12 May 2016 for the ensuing year be noted.

COMMITTEE MEMBERSHIP

RESOLVED 2016/009

That the membership: Councillors Reg Adair, John Clarke, Tom Hollis, John Handley, David Kirkham, Ken Rigby and John Wilmott be noted.

CHANGES TO COMMITTEE MEMBERSHIP

Councillor Liz Plant had been appointed in place of Councillor Sheila Place for this meeting only. Councillor Stan Heptinstall had been appointed in place of Councillor Ken Rigby for this meeting only and Councillor Rachel Madden had been appointed in place of Councillor Tom Hollis for this meeting only.

MINUTES OF THE LAST MEETING HELD ON 16 MARCH 2016

The minutes of the last meeting of the Committee held on 16 March 2016, having been circulated, were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

None

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

MANDATORY INQUIRIES – 2015/16 STATEMENT OF ACCOUNTS

Glen Bicknell (Senior Accountant) introduced the report which informed members of the External Auditors' requirements for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit of the County Council's accounts for 2015/16. Members were also invited to comment on the response related to 'Those Charged with Governance'.

RESOLVED 2016/010

That the inquiries for those charged with governance for the 2015/16 audit of the Statement of Accounts be noted

CHANGES TO NOTTINGHAMSHIRE COUNTY COUNCIL'S 2015/16 STATEMENT OF ACCOUNTS

Glen Bicknell (Senior Accountant) introduced the report which informed members of the proposed changes to the 2015/16 Statement of Accounts to both streamline the financial statements and to help achieve earlier closedown deadlines in future.

RESOLVED 2016/011

That the proposed changes to the 2015/16 Statement of Accounts be noted.

KPMG – AUDIT FEES 2016/17 AND PROGRESS REPORT

Tony Crawley (KPMG's Director of Audit) introduced the report which informed members of the proposed KPMG audit fees for 2016/17 and provided members with information relating to external audit progress along with a technical update.

RESOLVED 2016/012

- 1) That the proposed KPMG audit fee levels be noted.
- 2) That the KPMG Progress Report and Technical Update be noted.

DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16

Rob Disney (Head of Internal Audit) introduced the report which informed members of the proposed Annual Governance Statement 2015/16.

RESOLVED 2016/013

That the Annual Governance Statement 2015/16 be endorsed and be submitted to Council along with the Statement of Accounts 2015/16 for approval.

ANNUAL FRAUD REPORT 2015/16

Rob Disney (Head of Internal Audit) presented the Council's first Annual Fraud Report.

RESOLVED 2016/014

That the Annual Fraud Report 2015/16 be noted.

INTERNAL AUDIT FOLLOW-UP PROCEDURE

Rob Disney (Head of Internal Audit) introduced the report which proposed a revised procedure for the follow-up of management actions to implement Internal Audit recommendations

RESOLVED 2016/015

That the proposed changes to the arrangements for the following up of agreed management actions to implement Internal Audit recommendations be approved for implementation in the current financial year.

INTERNAL AUDIT ANNUAL REPORT - 2015/16

Rob Disney (Head of Internal Audit) presented the Head of Internal Audit's Annual Report on the work carried out by Internal Audit during 2015/16

RESOLVED 2016/016

That the Head of Internal Audit's Annual Report for 2015/16 be noted.

FINANCIAL REGULATIONS WAIVERS 2015/16

Clare Winter (Group Manager, Procurement) informed Members about breaches to the Council's Financial Regulations and explained the requests for waivers for the financial year 2015/16.

RESOLVED 2016/017

That the Financial Regulations Waivers 2015/16 and the continued progress to keep waivers to a minimum be noted.

PROCUREMENT CONTRACTS AND UPDATE ON THE ROLE OF THE PROJECT MANAGER

Clare Winter (Group Manager, Procurement) introduced the report which provided information on the progress of the procurement service, in regard to project and contract management.

RESOLVED 2016/017

That the continued progress of the Procurement Service within the Authority be noted.

WORK PROGRAMME

RESOLVED: 2016/018

That the work programme be noted.

The meeting closed at 12.05 pm

CHAIRMAN

**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT &
IMPROVEMENT****POTENTIAL AREAS FOR DEVELOPMENT FOLLOWING AUDIT COMMITTEE
TRAINING****Purpose of the Report**

1. To suggest, for discussion, potential areas of development following the recent training session on Audit Committee effectiveness.

Information and Advice

2. At its meeting on 16 March 2016, the Committee determined that it wished to participate in a county-wide training session for members of local council audit committees, offered free of charge by the County Council's external auditor, KPMG.
3. The training session was held on 28th June 2016 at the offices of Gedling Borough Council. It was well attended, with representatives present from each local council in the county, including five Members from Nottinghamshire County Council's Audit Committee, along with the Service Director – Finance, Procurement and Improvement, the Head of Internal Audit and the Assistant Democratic Services Officer. Informal feedback following the session suggested that most attendees found the training informative and thought-provoking. The training materials provided during the session were circulated to all Members of the Audit Committee, including those who were unable to attend on the day.
4. Subsequent discussion with the Chair and Vice-Chair of the Committee determined that this discussion paper should be prepared, to provide an opportunity for Members to consider further how this Committee functions when compared with the elements of best practice highlighted during the session. Each attendee at the session will no doubt have formed their own opinion about this, but the following sets out the perspective of the Head of Internal Audit, to serve as a prompt for discussion.

Table 1 – Suggested strengths and priorities for improvement

Where the Committee performs well	How the Committee might develop
Communications and relationships between Committee Members, the Head of Internal Audit and the Service Director – Finance, Procurement & Improvement	The Audit Committee’s terms of reference might more demonstrably be the driver for setting out the range of assurance the Committee requires each year, and so should drive the content of the Committee’s agenda at its meetings during the year.
Audit Committee papers provide a good level of information to assist Members.	Each report to the Audit Committee should include reference to the relevant aspect of the Committee’s terms of reference. In this way, it should be clear how each report the Committee receives is making a contribution to the range of assurance the Committee requires.
Internal Audit’s findings and progress are fed through to the Committee at appropriate intervals.	The Committee might consider the benefit of pre-meetings and ad hoc meetings to discuss issues in a less formal setting.
Audit Committee meetings see an even spread of contributions from all attendees.	At the end of each year, the Audit Committee might produce a report to Full Council, setting out its activities, assurances secured and any learning points.
A good process is in place around the Annual Governance Statement.	There may be scope for the Audit Committee to see regular input from a wider range of the most senior members of the Council’s management team.
	The Committee might carry out a periodic self-assessment against best practice for Audit Committees.

5. At the close of the training session, the proposal was aired for ongoing and periodic County-wide sessions to be held in the future, possibly under the guise of a Nottinghamshire Audit Forum. Such a forum is in place in Lincolnshire, embracing the work of audit committees across the public sector. The Lincolnshire Forum meets approximately six-monthly and provides an opportunity to share experiences and discuss topical issues. Audit Committee’s views would be welcome as to whether it would like to express its interest in pursuing this further for Nottinghamshire.
6. In considering potential areas for development, the Audit Committee may wish to be mindful of the most appropriate timing for any agreed developments to be progressed and implemented.

Other Options Considered

7. This report seeks to draw out the key issues arising from the recent training event held, therefore no other options were considered in compiling this report.

Reason/s for Recommendation/s

8. To capture the key areas in which the Audit Committee considers it may be able to improve its own effectiveness and to consider the most appropriate timing for any developments to be implemented.

Statutory and Policy Implications

9. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and adults at risk, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

The Audit Committee delivers a key role in the Authority's governance arrangements, incorporating the arrangements for the effective management and control of the Council's finances. As such, any improvement in the effectiveness of the Audit Committee should lead to strengthened arrangements for financial governance.

RECOMMENDATION/S

- 1) The Committee discusses the scope for developing its effectiveness in light of the recent training event and, where it considers changes should be made, it identifies the most appropriate timing for their implementation.

Nigel Stevenson

Service Director – Finance, Procurement and Improvement

For any enquiries about this report please contact: Rob Disney, Head of Internal Audit

Constitutional Comments [KK 11/08/2016]

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

Financial Comments [CB 12/08/2016]

11. The finance implications are contained within the report.

Background Papers and Published Documents

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.

- Presentation slides from the training event held June 2016

Electoral Division(s) and Member(s) Affected

- All



**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &
IMPROVEMENT**

EXTERNAL AUDIT – ANNUAL GOVERNANCE REPORTS

Purpose of the Report

1. To receive information and comment upon the External Auditors' Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval on 15 September 2016.

Information and Advice

2. The External Auditors, KPMG, have now substantially completed their audit work on the Authority's financial statements for 2015/16 and propose to issue unqualified audit opinions on the County Council and Pension Funds' accounts, subject to satisfactory clearance of the remaining issues.
3. In the course of their work the External Auditors have identified a number of matters, detailed in the attached reports, which they wish to bring to the Audit Committee and Full Council's attention. Whilst the Councils Balance Sheet has been restated since the draft accounts were prepared in June, the overall net worth of the Council has not altered, and the remaining main statements are unchanged.
4. The auditor's report explains that a formal objection to the Council's 2015/16 accounts has been received. The auditor will consider the objection and decide upon what further action is required. Until this issue is resolved, the Council will not be able to publish the formal 2015/16 Statement of Accounts notice of completion.
5. The Audit Director (KPMG), Tony Crawley will be in attendance at the meeting to present the report and to respond to Members' queries.
6. As part of the Audit of Financial Statements process, the Section 151 Officer is required to prepare a Letter of Representation to the External Auditor and the proposed letter is attached for Members' agreement.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are

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

RECOMMENDATION/S

- 1) That Members of the Audit Committee note the External Auditor’s Annual Governance Reports on the County Council and Pension Fund accounts and:
 - a) Note the matters raised in the report before the financial statements are re-signed by the Section 151 Officer
 - b) Note the Letter of Representation attached to this report.

Nigel Stevenson
Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:
Glen Bicknell, Senior Accountant, Financial Strategy and Compliance

Constitutional Comments

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

Financial Comments (GB 11/08/2016)

9. The anticipated proposed total fees, excluding the indicative fee for grant claim certification, are £98,213 for Nottinghamshire County Council and £29,926 for the Nottinghamshire Pension Fund.

Background Papers and Published Documents

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



External Audit Report 2015/16

**Nottinghamshire County Council and
Nottinghamshire Pension Fund**

August 2016

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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



Section one: Introduction



This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and
- Our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Nottinghamshire County Council ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

We have also reviewed your progress in implementing prior recommendations in Appendix 1.

Acknowledgements

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



Section two: Headlines



This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion on the Authority’s financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund’s financial statements, as contained both in the Authority’s Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.</p>
Audit adjustments	<p>Our audit has not identified any material audit adjustments. Our audit has identified some minor presentational adjustments to the financial statements presented for audit, which Management have agreed to amend in the final draft of the financial statements.</p>
Key financial statements audit risks	<p>We identified the following key financial statements audit risks in our 15/16 External audit plan issued in February 2016.</p> <ul style="list-style-type: none"> — Calculation of the Minimum Revenue Provision; — The adoption of IFRS13 for the valuation of Non-Financial Assets; and — The identification and valuation of the Authority’s Infrastructure Assets. <p>We also identified, in our External Audit Plan, other areas of audit focus which were identified as:</p> <ul style="list-style-type: none"> — Follow up of prior year recommendations in relation to Pension system reporting and VAT accounted for within school bank reconciliations.
Accounts production and audit process	<p>We received complete draft accounts by 8 June 2016 ahead of the Department for Communities and Local Government (‘DCLG’) deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2014/15</i> relating to the financial statements.</p> <p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>As in previous years, we have debriefed with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process.</p>



This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

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

<p>VFM conclusion and risk areas</p>	<p>We identified the following VFM risks in our External audit plan 2015/16 issued in February 2016.</p> <ul style="list-style-type: none"> — Future savings plans; and — Working with partners – Better Care Fund. <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.</p>
<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Review of Pension Fund Annual Report for consistency; — Final review of audit work; and — Final review of financial statements. <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Authority’s financial statements.</p>
<p>Audit Certificate</p>	<p>We are in the process of completing the work on the Whole of Government Accounts which we anticipate completing by 30 September 2016.</p> <p>An objection to the accounts has been received from a local elector. This will delay us issuing our audit certificate until this matter has been given due attention.</p>



Section three: Financial Statements

Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by Full Council on 15 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. 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.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £18 million for the Authority. Audit differences below £900k are not considered significant.

We did not identify any material misstatements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

There is no impact on the General Fund as a result of our audit adjustments.

Movements on the general fund 2015/16

£m	Pre-audit	Post-audit
Deficit on the provision of services	(34)	(34)
Adjustments between accounting basis and funding basis under Regulations	30	30
Transfers to earmarked reserves	1	1
Decrease in General Fund	(3)	(3)

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit
Property, plant and equipment	1,254	1,254
Other long term assets	34	34
Current assets	163	163
Current liabilities	(125)	(125)
Long term liabilities	(1,507)	(1,507)
Net worth	(181)	(181)
General Fund	24	24
Other usable reserves	171	171
Unusable reserves	(376)	(376)
Total reserves	(181)	(181)

Proposed opinion and audit differences (cont.)



We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £40m million. Audit differences below £2m are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by Full Council on 15 September 2016.

We did not identify any material misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Annual report

We have reviewed the Authority's annual report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Pension fund annual report

We are yet to review the Pension Fund Annual Financial Report and to confirm that, the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Financial Report at the same time as our opinion on the Statement of Accounts following our work.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in February 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Calculation of the Minimum Revenue Provision (MRP)

— Risk

The Authority is planning to revise the calculation of its Minimum Revenue Provision. This will have an impact on the amount charged to its General Fund for the repayment of its external debt in future years.

This risk affects only the Authority.

— Findings

Although this will not impact on the 2015/16 statements, we have reviewed the Authority's revised policy to ensure that it complies with the Statutory requirements with no significant issues to note. This included consultation with our Local Government technical team. We will review the application of the new policy to the 2016/17 MRP calculation.

The adoption of IFRS13 for the valuation of Non Financial Assets

— Risk

The adoption of IFRS 13 requires the Authority to value its Non Financial Assets at fair value in 2015/16. The comparative figures for 2014/15 will also need to be restated. The restatement will also require a number of additional disclosures to the statements.

— Findings

We have discussed the methodology adopted by the Authority in implementing this new requirement. We have reviewed the valuation arrangements in place, by discussions with Officers and agreed the new valuations to the 2015/16 financial statements. There were no significant issues arising from the work undertaken.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

Identification and Valuation of the Authority's Infrastructure Assets

— Risk

The CIPFA Transport Infrastructure Code of Practice for 2015/16 requires the Authority to measure its transport infrastructure assets on a Depreciated Replacement Cost basis from 2016/17, rather than on the current Historic Cost basis. This is expected to result in a very large increase in the value of assets on the Authority's balance sheet.

Although the change in the Code does not come into effect until 1 April 2016, the Authority will need to ensure that it has the procedures in place for the 2016/17 accounts.

— Findings

We have been liaising with officers throughout the year to discuss the approach to the requirement detailed above. We will continue these discussions as further clarification is received from CIPFA on the approach, with a view to agreeing an approach which is in line with the Code of Practice.

In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus



In our External Audit Plan 2015/16, presented to you in February 2016, we identified two areas of audit focus relating to our prior year recommendations. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings.

Follow up of our prior year recommendations

— Schools VAT

We raised a recommendation relating to the quality assurance procedures in relation to reclaimed VAT cash balances for school accounts in 2013/14, which was reported in 2014/15 as not being completed.

— Findings

We have confirmed this recommendation has been implemented as part of the 2015/16 audit.

— Pensions system reporting

As part of our work on Pensions in 2014/15, we raised a recommendation that the Authority should ensure that the reporting from the system is reviewed and rectified to address any coding issues which may be embedded within the reports. This will aid the reporting during for triennial valuation purposes when required.

— Findings

We confirmed this recommendation has been implemented as part of the 2015/16 audit, and information has been sent to the actuary as part of the triennial valuation exercise.

Accounts production and audit process



The Authority has a well established and strong accounts production process. This operated well in 2015/16. The standard of accounts and supporting working papers was good.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the recommendation in our ISA 260 Report 2014/15.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process. The statements continued to be produced to a high standard. In preparation for the change in deadlines going forward, we started our audit earlier than in previous years, which has not caused any major issues in preparing and providing the statement of accounts and supporting working papers. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 8 June 2016
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we issued on 23 February 2016 set out our working paper requirements for the audit. The quality of working papers provided was high and fully met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved all audit queries in a reasonable time

Element	Commentary
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Additional findings in respect of the control environment for key financial systems

We are pleased to report that we have no specific findings in relation to the control environment.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

Appendix one provides further details.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire County Council Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire County Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the senior accountant for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.



Section four: Value for Money



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

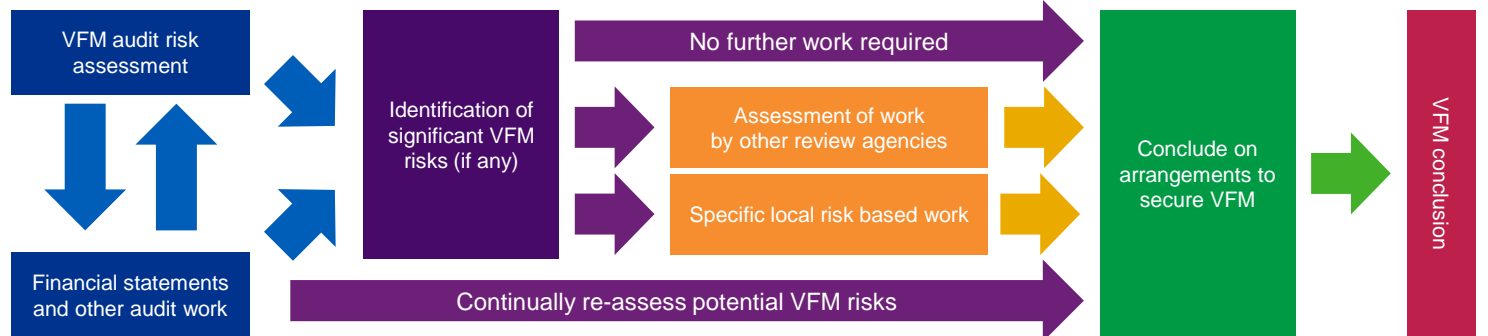
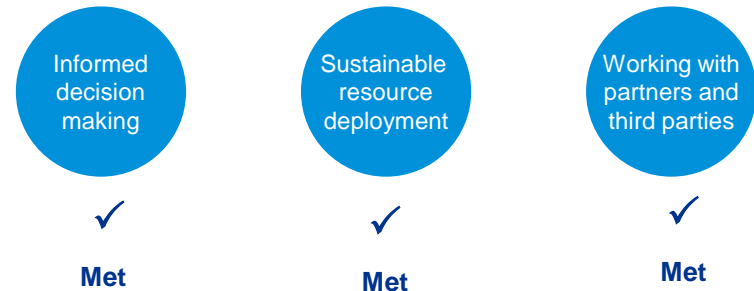
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



VFM Conclusion (cont.)



We have considered the Authority's arrangements for securing value for money in line with the NAO's Code of Audit Practice.

Our approach

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Authority.

Key elements of our work

Below we set out the key elements of work undertaken in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority.

We have summarised overleaf our assessment of the specific VFM risks identified in our Audit Plan presented to the Audit Committee in March 2016.



VFM Criteria	Work Undertaken
<ul style="list-style-type: none"> - <i>Informed Decision Making</i> - <i>Sustainable Resource Deployment</i> - <i>Working with Partners and other Third Parties.</i> 	<p>To consider the three criteria we have undertaken the following procedures:</p> <ul style="list-style-type: none"> - Regular liaison with the s151 officer, and key personnel; - Meetings with Corporate Directors from key areas of the Authority, including Adult Social Care, Health and Public Protection, Resources, and Place; - Review of the medium term financial plan; - Assessment of the budget setting process, in particular the cross party planning undertaken for 2016/17; - Review of 2015/16 outturn vs budget, and current outturn forecasts for 2016/17; - Review of current transformation plans and spending proposals; and - Review of Authority minutes and Internal Audit reports. <p>We do not have any significant matters to report following our work in these areas.</p>

Specific VFM Risks



We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>In 2015/16 the Authority entered into Section 75 agreement with Clinical Commissioning Groups to pool funds to implement the local Better Care Fund. The implementation of the Better Care Fund drives integration of services to improve outcomes for the patient and public as well as delivery efficiencies and effectively manages limited resources during challenging times. We consider this a significant risk as the Better Care Fund is in its early stages and therefore there are risks associated with the delivery of improved health and social care in Nottinghamshire and achieving significant savings.</p> <p>This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>We have reviewed:</p> <ul style="list-style-type: none"> - The arrangements the Authority has in place to ensure the delivery of Better Care Plans and progress made against the plans; - The framework to ensuring delivery of the services against targets and consider any actions taken by the Authority where delivery is under performing significantly; and - The overall savings achieved are in line with those planned and consider how the Authority will fund any savings which are not achieved. <p>We are satisfied that the Authority has suitable arrangements in place to monitor and ensure delivery of the Better Care Plans.</p>
	<p>The Authority's budgets over recent years have delivered significant planned savings, but further strong financial challenges lie ahead. The Authority forecasts predict that over the forthcoming years, additional savings will need to be found as the Authority faces further expenditure pressures and a continued reduction in resources. We understand the Authority has identified saving proposals for 2015/16 and 2016/17, but may require further savings in 2016/17 and future years to meet the potential impact of reduced resources on the financial standing of the Authority. Therefore we consider this as a significant risk</p> <p>This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>We have reviewed:</p> <ul style="list-style-type: none"> - The arrangements for assuring delivery of the Authority's savings programme; - The delivery of the saving plans to date including any actions taken by the Authority where savings are not achieved in line with the plan; - The arrangements the Authority have in place in identifying further savings for future years. <p>We are satisfied that the Authority has suitable arrangements in place to monitor and ensure delivery of the savings plans. We are aware of the progress being made to address the £50.2m shortfall by 2019/20 identified in the February 2016 budget statement, and it is important that members and officers continue to work together to address the gap.</p>



Appendices

Appendix 1: Update on prior year recommendations

Appendix 2: Audit differences

Appendix 3: Materiality and reporting of audit differences

Appendix 4: Independence and objectivity

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2016
1	3	<p>Quality assurance procedures – Prior year follow up In 2013/14 we raised a recommendation relating to the reclaimed VAT cash balances for school accounts. We highlighted there were quality assurance procedures which could be strengthened, in particular:</p> <ul style="list-style-type: none"> ■ school bank reconciliations included amounts relating to reclaimed VAT in the cash balance even though the reclaimed VAT was not actually received late into the following month. <p>Recommendation Although the financial impact of this recommendation is unlikely to be material, it is recommended that the Authority implement these additional quality assurance procedures regarding school bank accounts for completeness.</p>	<p>Responsible officer Group Manager - Financial Management</p> <p>Due date April 2015</p>	This recommendation has now been implemented.

Follow up of prior year recommendations (cont.)

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2016
2	2	<p>Pensions system reporting</p> <p>We identified that the reporting from the system highlighted differences between what was originally sent to the actuary in April 2015, and rerunning the report in August 2015.</p> <p>Management investigated this issue, and determined that there was a coding issue on the original report run in April 2015 which omitted certain data from the output.</p> <p>Although this does not impact on the 2014/15 Statement of Accounts, the Authority will need to provide detailed information for triennial valuation purposes in 2016/17, and therefore will need to ensure that information is complete and accurate upon providing this to the actuary.</p> <p>Recommendation</p> <p>The Authority should ensure that the reporting from the system is reviewed and rectified to address any coding issues which may be embedded within the reports. This will aid the reporting during for triennial valuation purposes when required.</p>	<p>Responsible officer Senior Accountant</p> <p>Due date 31 December 2015</p>	<p>A full review of system reporting was undertaken and information has been provided to the actuary to enable them to undertake the triennial valuation process, which is currently underway.</p> <p>Therefore, we are satisfied, this recommendation has been implemented.</p>

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Material Misstatements

We are pleased to report that there are no material misstatements to report

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Materiality and reporting of audit differences

For 2015/16 our materiality is £18 million for the Authority's accounts. For the Pension Fund it is £40 million.

We have reported all audit differences over £900k for the Authority's accounts and £2 million for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February 2016.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we have considered individual differences to be clearly trivial if it is less than £900k for the Authority, and £2 million for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £40 million which is approximately 1 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £30 million for 2015/16.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action. [Page 39 of 76](#)

Auditor declaration

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire County Council Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire County Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix four

Audit Independence

Audit Fees

Our scale fee for the audit was £98,213.00 plus VAT, for the Authority (£130,950.00 plus VAT in 2015/16), and £29,926.00 plus VAT, for the Pension Fund (£29,926.00 plus VAT in 2015/16). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Audit of Teachers' Pension Returns	£3k	We have considered the potential threats to auditor independence based on the non audit services undertaken, and based on our professional judgement believe that no further safeguards are required as our objectivity has not been compromised, and there are no issues of independence with respect to the Authority and Pension Fund.
Certification of Local Transport Grant return	£3k	
Total estimated fees	£6k	
Total estimated fees as a percentage of the external audit fees	6.1%	



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This matter is being dealt with by:
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E nigel.stevenson@nottscc.gov.uk
W nottinghamshire.gov.uk

Tony Crawley
Director, Infrastructure & Government & Healthcare
KPMG LLP UK
St Nicholas House
31 Park Row
Nottingham
NG1 6FG

15 September 2016

Dear Mr Crawley,

Nottinghamshire County Council and Nottinghamshire County Council Pension Fund – Audit for the year ended 31 March 2016

This representation letter is provided in connection with your audit of the financial statements of Nottinghamshire County Council and Nottinghamshire Pension Fund (“the Authority”) for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority’s expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial Statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 9 of the Accounts and Audit (England) Regulations 2015, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
 - give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
 - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
 - i. The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii. The Authority has disclosed to you all information in relation to:

(a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

(b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
12. The Authority confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

13. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 *Employee Benefits*.

The Authority further confirms that:

(a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

(b) all settlements and curtailments have been identified and properly accounted for.

This letter was agreed at the meeting of the Audit Committee on 7 September 2016 and approved by full Council on 15 September 2016.

Yours Sincerely,

Signed:

Name: Nigel Stevenson

Position: Service Director – (Finance, Procurement and Improvement), Nottinghamshire County Council.

Date: 15 September 2016

Appendix A

Representation Letter of Nottinghamshire County Council and Nottinghamshire Pension Fund: Definitions

Financial Statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Movement in Reserves Statement for the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement

judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue, and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT &
IMPROVEMENT****INTERNAL AUDIT CHARTER****Purpose of the Report**

1. To review and approve an updated version of the Internal Audit Charter, as proposed in Appendix 1.

Information and Advice

2. The Council's Internal Audit Section works in compliance with its Internal Audit Charter, which is compiled in accordance with the guidance set out in the Public Sector Internal Audit Standards (PSIAS).
3. The charter is a formal document defining the Internal Audit Section's purpose, authority and responsibility. It establishes the Section's position within the Council, including the nature of the Head of Internal Audit's functional reporting relationship with the Audit Committee. It authorises access to records, personnel and physical properties relevant to the performance of audit engagements, and it defines the scope of Internal Audit's activities. Final approval of the charter rests with the Audit Committee.
4. The Internal Audit Charter should be reviewed periodically, to ensure it remains relevant and up-to-date. An updated version is presented at this time, principally to take account of the following developments:
 - a) The PSIAS were recently revised to include a mission for internal audit sections, along with core principles for the professional practice of internal auditing
 - b) At its meeting in June 2016, the Audit Committee approved a change in procedure at this Council for following up the implementation of management actions to address Internal Audit recommendations.
5. The updated version of the charter also removes reference to an established link with the Police to enable potential irregularities to be discussed on both a formal and informal basis. This link is not now sufficiently well established to warrant its inclusion in the charter. However, the Annual Fraud Report presented to the Audit Committee in June 2016 identified an intention to re-establish such a link at a more corporate level through the Human Resources function.

Other Options Considered

6. The establishment and maintenance of a formal internal audit charter is a requirement of the PSIAS.

Reason/s for Recommendation/s

7. To ensure that this Council's Internal Audit Charter remains up-to-date and relevant to the developing needs of the authority from its internal audit service.

Statutory and Policy Implications

8. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and adults at risk, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

The activities of the Internal Audit service are a key element in the governance framework within the Council. The formal Internal Audit Charter is a key document in ensuring the Council receives an effective service from the resources it deploys on this area of activity.

RECOMMENDATION/S

- 1) That the revised Internal Audit Charter be approved.

Nigel Stevenson

Services Director – Finance, Procurement and Improvement

For any enquiries about this report please contact: Rob Disney, Head of Internal Audit

Constitutional Comments [KK 11/8/2016]

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

Financial Comments [RWK 08/08/2016]

10. There are no specific financial implications arising directly from this report.

Background Papers and Published Documents

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

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 **MISSION OF INTERNAL AUDIT**

- 2.1 To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

3 **CORE PRINCIPLES**

- 3.1 The Internal Audit Section strives for compliance with the following 10 core principles for the professional practice of internal auditing, as set out in the Public Sector Internal Audit Standards:
- Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk-based assurance
 - Is insightful, proactive and future-focused
 - Promotes organisational improvement.

4 **PURPOSE, AUTHORITY AND RESPONSIBILITY**

- 4.1 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.

- 4.2 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.
- 4.3 Internal Audit derives its authority from the Accounts and Audit Regulations 2011, from this Charter and from 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.'

- 4.4 The role of the 'board' is fulfilled by the Audit Committee.
- 4.5 The role of senior management is fulfilled by the Corporate Leadership Team, comprising the Chief Executive and Corporate Directors of the Authority.
- 4.6 The role of the chief audit executive is fulfilled by the Group Manager – Internal 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 – Internal Audit reports directly to the Section 151 officer, but also has responsibilities to senior management and the Audit Committee.
- 4.7 The resourcing of Internal Audit is under continuous review by the Section 151 Officer and the Group Manager – Internal 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 8.
- 4.8 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.
- 4.9 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.

5 **INDEPENDENCE AND OBJECTIVITY**

- 5.1 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 – Internal Audit deems appropriate.
- 5.2 The status of the Group Manager – Internal Audit is sufficient to allow the effective discussion of audit strategies, plans, results and improvement plans with senior management in the organisation.
- 5.3 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.

- 5.4 The Group Manager – Internal Audit meets quarterly with the Authority’s three statutory officers: the Chief Executive, the Section 151 Officer and the Monitoring Officer. Key issues concerning the governance of the Authority are discussed and the Annual Governance Statement is kept under ongoing review.
- 5.5 The Group Manager – Internal Audit is required to confirm annually the organisational independence of the internal audit activity. The Group Manager - Internal Audit has the right to direct and unrestricted access to senior management and the Board.
- 5.6 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 – Internal 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.

6 PROFICIENCY AND DUE PROFESSIONAL CARE

- 6.1 Internal Audit operates in accordance with the Public Sector Internal Audit Standards. Compliance with the Standards is reviewed annually by the Group Manager - Internal Audit.
- 6.2 A thorough recruitment process, in accordance with the Authority’s procedures, applies to the appointment of Internal Audit staff to ensure the Section has the appropriate professional skills and experience to fulfil its objectives. The Group Manager - Internal 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 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 - Internal Audit.
- 6.3 Internal Auditors have an annual review of their performance and development needs. They are provided with the appropriate training to fulfil their responsibilities and to maintain their professional development and competence.

7 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 7.1 The Group Manager - Internal Audit reviews the work of the Section on an annual basis to provide assurance that it conforms to the relevant standards and requirements of the Internal Audit Charter.
- 7.2 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.
- 7.3 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 – Internal 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.
- 7.4 Arising from the internal review, external assessments and the annual review of Internal Auditors’ performance and development, the Group Manager – Internal Audit will, in discussion with senior management and the Audit Committee, develop an Improvement Programme.
- 7.5 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 – Internal Audit must disclose the non-conformance to senior management and the Audit Committee.

8 **MANAGEMENT OF INTERNAL AUDIT ACTIVITY**

- 8.1 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.
- 8.2 The Group Manager - Internal 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.

- 8.3 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.
- 8.4 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 - Internal Audit considers it necessary.
- 8.5 The Section adopts a structured approach to all its work including the use of a risk-based, systematic approach, where appropriate, for opinion audits.

9 **AUDIT COMMITTEE RESPONSIBILITIES**

- 9.1 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.
- 9.2 The Committee reviews and comments upon:
- Internal Audit Charter
 - Internal Audit's Annual Report (including the opinion of the Authority's control environment)
 - Internal Audit's Strategy, Annual Plan and Progress against the Plan (including key findings and recommendations)
 - External Audit's Annual Audit Letter and Annual Plan
 - Reports on the implementation of Internal Audit recommendations
 - Reports on relevant public sector publications concerning general audit developments

➤ Any significant audit issues that may arise within the Authority.

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

10 **SUSPECTED IRREGULARITY INVESTIGATIONS**

10.1 In accordance with the Authority's Financial Regulations, Internal Auditors carry out investigations into suspected financial irregularities. All managers in the Authority 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.

10.2 When conducting audit engagements, Internal Auditors when 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.

10.3 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.

10.4 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. 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.

10.5 The Group Manager - Internal Audit may carry out other special investigations at the request of the Section 151 Officer or other senior managers.

11 **INTERNAL AUDIT REPORTING**

11.1 Internal Audit reports its findings to appropriate managers, who have a responsibility to respond promptly to the reports' recommendations. Recommendations are priority ranked and reports contain an audit opinion on the area reviewed. One of three audit opinions of the level of assurance is provided, namely: substantial assurance, reasonable assurance or limited assurance.

The spread of Internal Audit opinions each year is one factor used to inform the Authority's Annual Governance Statement.

- 11.2 All Internal Audit recommendations are followed up to confirm the agreed management actions are taken. Two levels of assurance are applied to confirm implementation, as detailed below:

Priority rating of recommendation	Management assurance	Internal Audit assurance
High	Assurance is sought from management that all agreed actions have been taken	Compliance testing scheduled to confirm all agreed actions relating to high priority recommendations are carried out consistently.
Medium		Compliance testing is scheduled for selected medium priority actions
Low		No Internal Audit compliance testing is carried out

- 11.3 Quarterly progress on the implementation of agreed management actions is reported to senior management and to the Audit Committee. The Audit Committee determines whether it wishes to receive an update from senior managers at its next quarterly meeting to provide further assurance regarding actions to improve the internal controls in a specific area of activity.
- 11.4 Audit Internal 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 - Internal Audit or Audit 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.

12 **COORDINATION OF AUDIT ASSURANCE**

- 12.1 The Group Manager – Internal 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.
- 12.2 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.

- 12.3 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.
-

REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT & IMPROVEMENT

FOLLOW-UP OF INTERNAL AUDIT RECOMMENDATIONS

Purpose of the Report

1. To report progress with the implementation of agreed management actions to address Internal Audit recommendations.

Information and Advice

2. At its meeting in June 2016, the Audit Committee agreed a revised procedure for the follow-up of Internal Audit recommendations. Whereas previously follow-up work was geared around the opinion in each audit report, the new procedure is driven by the priority rating of each recommendation made by Internal Audit. Assurance that agreed actions have been taken will now be obtained in two phases, as below:

Priority rating of recommendation	Management assurance	Internal Audit assurance
High	Assurance is sought from management that all agreed actions have been taken	Compliance testing scheduled to confirm all agreed actions relating to high priority recommendations are carried out consistently.
Medium		Compliance testing is scheduled for selected medium priority actions
Low		No Internal Audit compliance testing is carried out
Value For Money (VFM)		Compliance testing may be scheduled for the more significant VFM recommendations

3. Following the last meeting in June, the Internal Audit service has engaged with senior managers across the Council to bring the revised procedure to their attention and to seek feedback for the management assurance that agreed actions are being taken.
4. The approach taken for this first instance of the quarterly follow-up report may be summarised as follows:
 - Feedback from management has been sought for all actions relating to recommendations first raised in draft Internal Audit reports issued since April 2015.

This excludes final reports issued in 2015/16 which relate back to draft reports issued in 2014/15.

- The reported progress at this stage is based entirely on the assurances received from management. Follow-up compliance testing by Internal Audit is scheduled to be carried in accordance with the revised procedure and as indicated in Appendix 1.
5. **Appendix 1** sets out each high priority recommendation made during the defined period, along with details of the agreed management actions and the progress to date with implementation. The appendix also sets out the proposed timing for follow-up testing by Internal Audit.
 6. At this stage, management assurances indicate that the agreed actions have been taken on almost all of the high priority recommendations; implementation is confirmed as complete or substantially complete for 25 of 29 actions (86%). This is a very positive first level of assurance from management that the Council's system of internal control has been strengthened as a result of the work of Internal Audit.
 7. The outstanding issues relate to the following:
 - ASCH&PP District Client Accounts – implementation of one action has slipped
 - CFCS Locality-based Client Accounts – a revised procedure will be implemented in September 2016
 - Place Catering & Facilities Management – implementation of one action has been delayed but will now be implemented.
 8. With regard to the medium, low and VFM priority recommendations, the feedback received from management may be summarised as follows:

Recommendation Breakdown	ASCH&PP	CFCS	PLACE	RESOURCES	CROSS-CUTTING	TOTALS
MEDIUM PRIORITY						
Agreed	18	34	16	5	16	89
Implemented	17	25	14	4	7	67 (75%)
Not yet due	1	0	0	1	7	9 (10%)
Outstanding	0	9	2	0	2	13 (15%)
LOW PRIORITY						
Agreed	8	4	10	4	1	27
Implemented	8	4	9	1	0	22 (81%)
Not yet due	0	0	0	2	1	3 (11%)
Outstanding	0	0	1	1	0	2 (8%)
VALUE FOR MONEY						
Agreed	2	1	2	1	0	6
Implemented	1	1	2	1	0	5 (83%)
Not yet due	0	0	0	0	0	0 (0%)
Outstanding	1	0	0	0	0	1 (17%)

9. It can be seen from the above table that actions to address the lesser priority control issues raised by Internal Audit are confirmed by management in over 77% of cases. Again, this is a positive first level of assurance received from management that improvements to the Council's system of internal control are being made as a result of Internal Audit's work.

10. In the second half of the year, follow-up testing will be scheduled by Internal Audit to confirm embedded implementation of each of the high priority actions listed in Appendix 1. The target quarters for this follow-up work are indicated in the appendix, and the outcomes will be reported to future meetings of the Audit Committee. Follow-up testing will also be targeted at selected medium-priority and VFM actions.
11. Arising from the above, the Committee may consider that it requires further updates and assurances from management at its next meeting in December in relation to one or more of the areas listed in the appendix.

Other Options Considered

12. Given the recent approval by the Audit Committee for the change in procedure for the follow-up of internal Audit recommendations, no other options for obtaining the required assurances were considered at this time.

Reason/s for Recommendation/s

13. To enable the Audit Committee to consider whether it has received sufficient assurance that actions in response to Internal Audit's recommendations are being implemented as agreed, or whether it considers that further and more detailed updates from management are required.

Statutory and Policy Implications

14. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and adults at risk, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

Many of Internal Audit's recommendations are made with specific financial implications in mind. Such recommendations, and the associated management actions, are designed to secure effective governance, internal control and risk management.

RECOMMENDATION/S

- 1) The progress detailed in the report and its appendix are noted, and the Committee determines whether it wishes to receive further and more detailed updates on progress from relevant managers in any of the areas of activity covered by this report.

Nigel Stevenson

Service Director – Finance, Procurement and improvement

For any enquiries about this report please contact: Rob Disney, Head of Internal Audit

Constitutional Comments [KK 11/08/2016]

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

Financial Comments [CB 12/08/2016]

16. The financial implications are contained within the report.

Background Papers and Published Documents

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 full Internal Audit reports containing the recommendations listed in Appendix 1.

Electoral Division(s) and Member(s) Affected

- All

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
Department: Adults' Social Care, Health and Public Protection						
Service Area: Quality & Market Management						
Audit: ASC1601 Service User Contributions to Residential and Nursing Care						
A1	Revise the main financial assessment form to incorporate a field to record the names and contact details of those who can correspond on behalf of service users.	30 th June 2015	Completed	Testing scheduled for Q3 2016/17		Confirmed by management
A2	Where there is a power of attorney or deputyship in place, the signed declaration form (FAF3) will be used as the evidentiary document.		Completed			Confirmed by management
Service Area: Quality & Market Management: Locality Offices						
Audit: ASC1607 District Client Accounts						
A3	Reconciliation of client accounts with locality records	31 st January 2016	Completed for all known accounts	Testing scheduled for Q4 2016/17		Confirmed by management
A4	Clear designation of responsibility for the establishment and overview of locality based accounts	31 st March 2016	Implemented			Confirmed by management
A5	Update and expand staff guidance on the management of service users' finances	31 st March 2016 (original); 31 st October 2016 (revised)	Staff guidance on criteria is still in draft. Team Manager will complete by 31 st October 2016			Implementation delayed
Service Area: Quality & Market Management						
Audit: ASC1610 Market Development & Care Standards						
A6	Reporting of safeguarding enquiry outcomes to the Quality & Market Management Team - extension of current referral process to include information from Multi-Agency Safeguarding Hub staff, pending improvements with the implementation of the Mosaic upgrade.	Immediate and September 2016 (for the Mosaic upgrade)	There is no update to report as the next update cannot take place until September 2016. However we have now been informed that the proposed changes to Mosaic will not give what was originally intended from the project. Therefore we are in discussions with the Framework Project Team about how to best utilise what is available. Quality & Market Management continue to receive referrals from safeguarding teams with outcomes.			Confirmed by management
Service Area: Residential Services						
Audit: ASC1617 Shared Lives - funding of carers and financial safeguarding						
A7	Address the various issues with three service users' accounts identified during the audit	Immediate	All issues have been raised and corrected	Testing scheduled for Q3 2016/17		Confirmed by management
A8	Reminders to carers to work within the Support Plan and guidance documents	Immediate	All carers have been written to as described			Confirmed by management
A9	Review and standardise financial records	Immediate	All records and forms are now standardised			Confirmed by management
A10	Reminder to co-ordinators to load monitoring visit records to Framework every 3 months	Immediate	All records are now up to date and are now regularly audited			Confirmed by management
A11	Reminder to co-ordinators to challenge carers where records and procedures are not as expected	Immediate	Co-ordinators have been reminded of this. All issues raised by the audit have been addressed.			Confirmed by management

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
A12	No carers to be set up or be permitted to have informal financial managemet arrangements for service users	Immediate, however getting best interest decisions may be determining factor in this timescale.	This has been implemented with one exception which has been risk assessed due to the unusual circumstances			Confirmed by management
A13	Co-ordinators to review their case their loads to ensure no carers are acting as appointees for the people they support. Make referrals for best interest decisions where there are capacity issues.	Immediate, however getting best interest decisions may be determining factor in this timescale.	This has been implemented			Confirmed by management
Department: Children, Families and Cultural Services						
Service Area: Adolescence and Early Help Locality Services						
Audit: CFCS1602 School Swimming Service						
C1	Pricing to recover expected costs and provide for future investment through: moe to trader account status; targetting price increases at schools requiring more stafing support; budgetary restraint	Trader account September 2015; notification in February 2016 of September price increases	The increase in charges to Schools in 16/17 and 17/18 accademic years were agreed. We are working with Finance to convert the service to a Trading account to allow limited reserves to be accrued in good years to balance unplanned expendiure in bad years (e.g. unexpected pool closure). All additional instruction to support children with additional needs are being paid for by the schools.	Testing scheduled for Q4 2016/17		Substantial progress
C2	Reduce overspending through: Bridging Clubs becoming self-funding or deleted; Group Manager scrutiny of spend; utilise Access to Work funding; renegotiate transport contracts; recharge pool poviders for unplanned closures; review staffing structure	September 2015 onwards	A wide range of actions and initiatives are reported by management to implement budgetary restraint			Actions are ongoing
Service Area: Children's Social Care						
Audit: CFCS1608 Locality-based Client Acounts						
C3	Designated officer within the Department to take responsibility for the establishment and overview of locality based accounts	End of financial year 2015-16	On transfer to the Council's new bankers all Children's client accounts were closed. Where balances were held these were returned to the charities which they had been gifted by. A small amount remains which we are unable to return due to the charities no longer existing. This money will be donated to the Chairman's Charity when it is confirmed that there is no possibility of returning to any	Testing		Implementation delayed

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
C4	A central departmental record of all client accounts should be maintained	End of financial year 2015-16	that there is no possibility of returning to any of the charities. From mid-September monies received from charities for use with particular Children and families will be administered through one account held by the Team Manager Business Support. This will be reconciled monthly by CFCS finance. Regular checks will be made to ensure the monies are used within a timeframe or returned to the charities. This new system and procedure will be reviewed in November.	reconciling scheduled for Q4 2016/17		Implementation delayed
Service Area: Access to Resources Audit: CFCS1612 External Placements						
C5	Compliance with Council tendering regulations through use of the following hierarchy of options: 1 internal provision; 2 use of existing framework contracts; 3, issue contracts for specialist placements and invite the providers to join the existing frameworks	April 2016 (original); Sept 2016 (revised)	The first source of placements is via the East Midlands Regional Children's Framework (EMRCF) agreement and, if unsuccessful, other providers are approached. Work continues with legal services to have an agreed contract, which is compatible with contracts for the EMRCF. The service specification and schedules are currently being completed.			Confirmed by management
Service Area: Access to Resources Audit: CFCS1701 Clayfield Secure Unit follow-up						
C6	Monthly reconciliation of the imprest account	Already in place	The reconciliation is done on a monthly basis, however it is countersigned by the Support Services Manager as responsibility for the imprest system has been passed to the Business Support Officer since May 2016.			Confirmed by management
C7	Review and authorisation of imprest transactions by an independent person	Already in place	Continuing, however responsibility for the imprest account is done by the Business Support Officer and verified by the Support Services Manager.			Confirmed by management
C8	Checks to ensure posting are correct in the Business Management System	Already in place	Continuing, monthly journals are produced to amend any errors with regards to incorrect codes			Confirmed by management

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
C9	Work towards reducing the imprest level through the use of Business Management System purchase orders and purchase cards	Already in place	The Business Support Officer is working to reduce petty cash and June's imprest reimbursement was just over £1400, which is much less than previous months. However, this will fluctuate depending on the number of Young People coming in and needing clothing urgently and given that units are working to a tight budget they are beginning to become very prudent.	Testing scheduled for Q4 2016/17		Confirmed by management
C10	Instruct staff not to make Paypal payments unless justifiable, in which case prior authorisation is obtained	Already in place	Only one paypal transaction has taken place and that was for two members of staff to attend a conference and paypal was the only option to pay.			Confirmed by management
C11	Keep under review the list of suppliers able to supply goods or services through a Business Management System purchase order, to minimise use of the purchase card	Already in place	This is continuing and all efforts are made to use either existing vendors or to request new ones.			Confirmed by management
C12	Reminder to staff that purchase cards must only be used by the approved card holder	Already in place	The response to the recommendation confirms the agreed action has already been taken.			Confirmed by management
C13	System in place to show that all goods received are signed for	Already in place	This is continuing and working well.			Confirmed by management
Department: Place						
Service Area: Economic Development						
Audit: PPCS1601 Broadband						
P1	Discontinue the use of limit orders in favour of each supplier invoice being matched with a duly approved purchase order in the Business Management System	Already implemented	The response to the recommendation confirms the agreed action has already been taken.	Testing scheduled for Q3 2016/17		Confirmed by management
Service Area: Catering & Facilities Management						
Audit: E&R1617 Catering (County Hall & Trent Bridge House)						
P2	Re-introduce checks of consolidated invoices on the basis of a 10% ratio.	This will be implemented at the onset of the 2016 financial year	Sample checking will commence from 22/8/2016	Testing scheduled for Q4 2016/17		Implementation delayed
P3	The recommendation advised further that:					
P4	- Each month, the three school P&L accounts with the highest cost per meal should be explained.					
P5	- food costs in the school P&L accounts should be agreed to BMS at the end of each school year.					
P6	Remind staff in the Catering team that delivery notes from the suppliers of groceries and fruit and vegetables should be signed as evidence of receipt of the goods.	Feb-16	A verbal instruction and a memo was issued to all staff. Delivery notes are checked and signed.			Confirmed by management



**REPORT OF CORPORATE DIRECTOR, POLICY, PLANNING AND
CORPORATE SERVICES**

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme for 2016/17.

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 crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working 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)

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

Financial Comments (NS)

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

Background Papers and Published Documents

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

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>
7 December 2016				
Internal Audit Progress report for 2016/17	To provide details of internal audit work completed to the end of September 2016	Information	Rob Disney	Rob Disney
External Audit – Annual Audit Letter 2015/16	KPMG summarises the findings from work carried out by the external auditors over the last financial year (2015/16)	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Follow up of Internal Audit Recommendations	To provide information on the Internal Audit's high priority recommendations	Information	Rob Disney	Rob Disney
Briefing – Private Finance Initiative	To provide an update on the current status and operation of the Council's Private Finance Initiative contracts	Information	Rob Disney	Rob Disney
8 March 2017				
Statement of Accounts 2016/17 – Accounting Policies	To outline proposed changes to the accounting policies used for the Authority's Statement of Accounts for 2016/17 for review and approval	Decision	Nigel Stevenson	Glen Bicknell
Internal Audit Plan for 2017/18	Report from the Head of Internal Audit providing details of the planned work for 2017/18	Information	John Bailey	John Bailey
External Audit Plan 2016/17	To provide information on the External Auditors' Audit Plan for their 2016/17 Audit.	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Certification of Grants and Returns 2015/16	To provide information on the External Auditors' Annual Report 2015/16 on the certification of Grants and Returns	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Transport Infrastructure Assets Project	To provide Information on the project to add Transport Infrastructure Assets to the account from 2016/17	Information	Nigel Stevenson	Glen Bicknell / External Auditor

Follow up of Internal Audit Recommendations	To provide information on the Internal Audit's high priority recommendations	Information	John Bailey	John Bailey
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey
14 June 2017				
Annual External Audit Fees	To inform Members of proposed external audit fees for 2017/18	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Mandatory Inquiries	To provide information on the External Auditors' requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit.	Decision	Nigel Stevenson	Nigel Stevenson
Internal Audit Report 2016/17	Report of the Head of Internal Audit providing an internal audit opinion on the Authority's level of internal control during 2016/17	Information	John Bailey	John Bailey
Financial Regulations Waivers 2016/17	Inform Members of any braches of / and waivers of the Council's Financial Regulations	Information	Clare Winter	Clare Winter
Draft Annual Governance Statement 2016/17	Review and comment on the draft Annual Governance Statement prior to being forwarded on to Full Council to accompany the Statement of Accounts	Decision	John Bailey	John Bailey
Annual Fraud Report 2016/17	Inform Members of any detected fraud issues	Information	John Bailey	John Bailey
Follow up of Internal Audit Recommendations	To provide information on the Internal Audit's high priority recommendations	Information	John Bailey	John Bailey
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey

? September 2017				
External Audit Annual Governance Reports	To receive for information, and comment, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Follow up of Internal Audit Recommendations	To provide information on the Internal Audit's high priority recommendations	Information	John Bailey	John Bailey
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey

