Nottinghamshire County Council

# Audit Committee

## Wednesday, 16 March 2016 at 10:30

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

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# AGENDA



**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

**Nottinghamshire County Council**

# minutes

| | |
|---|---|
| Meeting | AUDIT COMMITTEE |
| Date | 2 December 2015 (commencing at 10.30 am) |

**membership**
Persons absent are marked with `A'

**COUNCILLORS**

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

| | | | |
|---|---|---|---|
| Reg Adair | | | John Handley |
| Alan Bell | | | David Kirkham |
| John Clarke | | A | Ken Rigby |
| Tom Hollis | | | John Wilmott |

**ALSO IN ATTENDANCE**

| | | |
|---|---|---|
| Councillor David Martin | - | Observer |
| Tony Crawley | - | KPMG LLP |
| Sayeed Haris | - | KPMG LLP |

**OFFICERS IN ATTENDANCE**

| | | |
|---|---|---|
| Sarah Ashton | ) | |
| Nigel Stevenson | ) | |
| John Bailey | ) | Resources |
| Glen Bicknell | ) | |
| Clare Winter | ) | |

**PERMANENTLY MEMBERSHIP CHANGES**

The following permanent change of membership was reported to the meeting:

- Councillor Tom Hollis replaced Councillor Stephen Garner

**MINUTES OF THE LAST MEETING HELD ON 2 SEPTEMBER 2015**

The minutes of the last meeting of the Committee held on 2 September 2015, having been circulated, were confirmed and signed by the Chair.

## APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Rigby (ill).

## DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

## EXTERNAL AUDIT – ANNUAL AUDIT LETTER 2014/15 AND PROGRESS REPORT

Tony Crawley (KPMG's Director of Audit) and Glen Bicknell (Senior Accountant) presented and explained the external auditor's annual audit letter 2014/15, progress report and technical update.

**RESOLVED 2015/019**

a) Members noted the External Auditors' Annual Audit Letter 2014/15

b) That the External Auditors' Progress Report and Technical Update be noted.

## INTERNAL AUDIT PROGRESS REPORT – 1st APRIL 2015 – 30th SEPTEMBER 2015

John Bailey (Head of Internal Audit) presented and the Internal audit progress report from 1 April to 30 September 2015 and highlighted the key issues.

**RESOLVED 2015/020**

That the progress against the Internal Audit Plan from 1 April to 30 September 2015 be noted.

## PUBLIC SECTOR AUDIT APPOINTMENTS' CONSULTATION ON WORK PROGRAMME AND SCALE OF FEES 2016/17 AUDITS

John Bailey (Head of Internal Audit) explained the Public Sector Audit Appointments' (PSAA) consultation and the proposed scale of fees for 2016/17.

**RESOLVED 2015/021**

a) Members accepted the PSAA plan to keep the work programme unchanged.

b) Noted the PSAA proposal to freeze the scale of fees for 2016/17.

## PROCUREMENT UPDATE

Clare Winter (Group Manager) presented a power point detailing how procurement has developed over the last 12 months.

**RESOLVED 2015/022**

That the progress of the Procurement Services be noted.

## WORK PROGRAMME

John Bailey (Head of Internal Audit) presented the work programme.

**RESOLVED: 2015/023**

Members requested that the Group Manager would report on the progress of the project management role within procurement at the June 2016 meeting.

That the work programme be noted.

The meeting closed at 11.48 am

**CHAIRMAN**

Nottinghamshire County Council

Report to AUDIT COMMITTEE

16 March 2016

Agenda Item: 4

# REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

# AUDIT OF THE TEACHER'S PENSION RETURN 2014/15

## Purpose of the Report

1. To inform Members of the External Auditors' audit of the Teacher's Pension Return.

## Information and Advice

2. From 2012/13 onwards KPMG became responsible for the delivery of an annual report on certification work. There were no audits which came within this scope in 2014/15. Outside of the normal external audit arrangements however, KPMG undertook an audit of the Teacher's Pension Return 2014/15.

3. The Local Authority is responsible for preparing the End of Year Certificate A (EYOCa) return and ensuring that accounting records are maintained which report the financial position of the Teacher's Pension Scheme.

4. The Teacher's Pension Return 2014/15 had a total value of £28.1 million.

5. The auditors conducted their reasonable assurance engagement and concluded that the Teachers' Pension return for the year ended 31 March 2015 had been prepared, in all material respects, in accordance with the regulations underpinning the Teachers' Pension Scheme.

6. The audit fee associated with the audit of the Teacher's Pension Return was £3,000.00.

## 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 note the Teacher's Pension Return audit and associated audit fees.

**Nigel Stevenson**
**Service Director – Finance, Procurement and Improvement**

**For any enquiries about this report please contact:**
Glen Bicknell, Senior Finance Business Partner, Financial Strategy and Compliance

**Constitutional Comments (HD 03/03/2016)**

8. None – the report is for noting only.

**Financial Comments (GB 03/03/2016)**

9. The audit fee associated with the Teacher's Pension Return was £3,000.00. This was line with the budget provision in place.

**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

Nottinghamshire County Council

**Report to AUDIT COMMITTEE**

**16 March 2016**

**Agenda Item: 5**

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

# KPMG – EXTERNAL AUDIT PLAN 2015/16

## Purpose of the Report

1. To inform Members of the External Auditors' Audit Plan for their 2015/16 Audit.

## Information and Advice

2. The attached report from KPMG sets out the proposed Audit Plan for the 2015/16 audit, including their approach, fees, key staff and timelines for the audit. The report is presented to Members for their information. The Audit Director (KPMG), Tony Crawley, and Sayeed Haris, the Audit Manager (KPMG), will be in attendance at the meeting to introduce the report and respond to Member's questions.

## Other Options Considered

3. The report is for comment only.

## Reason/s for Recommendation/s

4. To provide information to Members on the External Audit Plan 2015/16

## Statutory and Policy Implications

5. 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 receive, and comment upon, the External Auditor's Audit Plan for 2015/16.

**Nigel Stevenson**
**Service Director – Finance, Procurement and Improvement**

**For any enquiries about this report please contact:**
Glen Bicknell, Senior Finance Business Partner, Financial Strategy and Compliance.

**Constitutional Comments (03/03/2016 HD)**

6. Audit Committee is the appropriate body of Council to consider the report.

**Financial Comments (03/03/2016 GB)**

7. The anticipated 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. This is in line with the initial proposal and budget provision is in place.

**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 Plan 2015/16

Nottinghamshire County Council and Nottinghamshire Pension Fund

February 2016

# Headlines

## Financial Statement Audit

There is one significant changes to the Code of Practice on Local Authority Accounting in 2015/16 relating to the valuation of surplus assets. This provides stability in terms of the accounting standards the Authority need to comply with, with the exception of this area.

### *Materiality*

Materiality for planning purposes has set at £18 million for the Authority and **£**40 million for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £900k for the Authority and £2 million for the Pension Fund.

### *Significant risks*

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Calculation of the Minimum Revenue Provision;
- The adoption of IFRS 13 for the valuation of Non-Financial Assets: and
- The identification and valuation of the Authority's Infrastructure Assets..

### *Other areas of audit focus*

Those risks with less likelihood of giving rise to a material error but which we need to be reviewed more closely have been identified as:

- Follow up of prior year recommendations in relation to Pensions system reporting and VAT accounted for within school bank reconciliations.

**See pages 3 to 5 for more details.**

## Value for Money Arrangements work

The National Audit Office has issued new guidance for the Value for Money (VFM) audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Future savings plans; and
- Working with partners - Better Care Fund (BCF) – we will review the arrangements in place in regard to the BCF.  As this is in the first year of operation there is a risk that the arrangements may not be fully embedded.

**See pages 6 to 9 for more details.**

## Logistics

Our team is:

- Tony Crawley - Director
- Sayeed Haris - Manager
- David Schofield - Assistant manager

More details are on **page 12.**

Our work will be completed in four phases from January 2016 to September 2016 and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11.**

Our fee for the audit is £98,213 (£130,950 2014/15) for the Authority and £29,926 (£29,926 2014/15) for the Pension Fund see **page 10.**

# Introduction

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

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

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

## Acknowledgements

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

## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.


## Value for Money Arrangements Work

Our VFM Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our VFM risk assessment.

# Financial statements audit planning

### Financial Statements Audit Planning

Our planning work takes place during January 2016 to February 2016. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

### Risk assessment

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

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

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.




Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

# Financial statements audit planning (cont.)

**Significant Audit Risks**

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

### Calculation of the Minimum Revenue Provision (MRP)

- 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.
- 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. We will review the application of the new policy to the 2016/17 MRP calculation.

### Identification and valuation of the Authority's Infrastructure Assets

- 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. We have been liaising with the Authority's Officers throughout the year to determine that the appropriate procedures are in place for the change in valuation required in 2016/17.

### The adoption of IFRS 13 for the valuation of Non Financial Assets

- 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.
- We will review the valuation arrangements in place and ensure that the 2014/15 restated balances have been correctly incorporated into the 2015/16 financial statements. We will achieve this by discussing the impact and arrangements in place with the Authority's Finance Team throughout the audit process.

# Financial statements audit planning (cont.)

## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £18 million, which equates to approximately 1.5% percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £40 million, which approximately equates to 1% of net assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit Committee

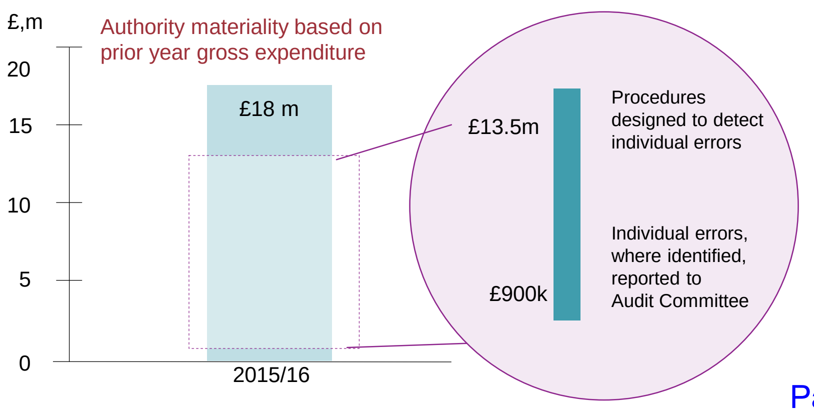
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

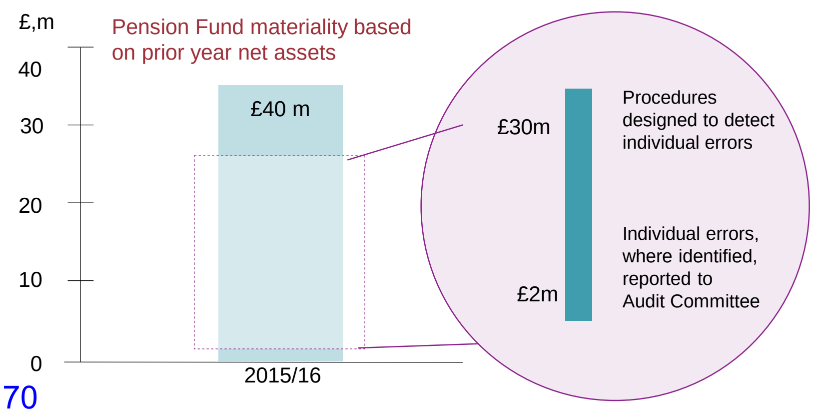
Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential,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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £900k.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2 million.

If 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.



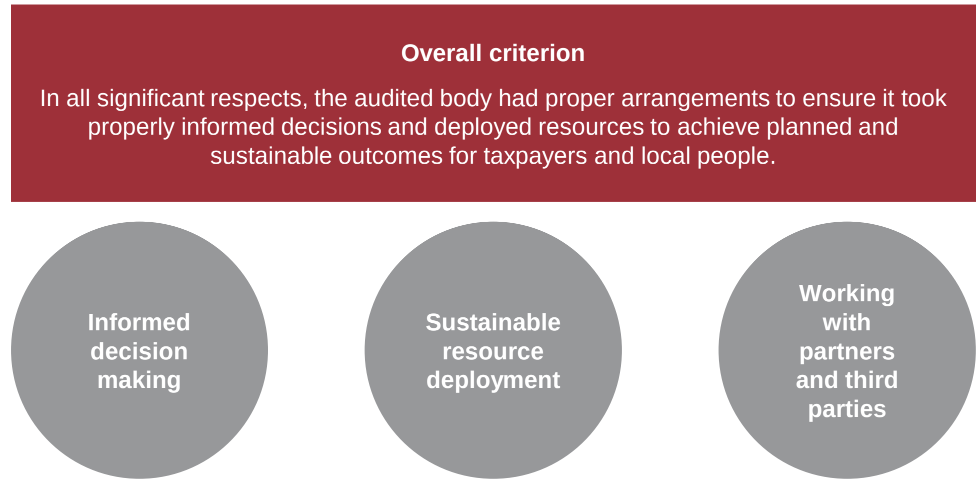
# Value for money arrangements work

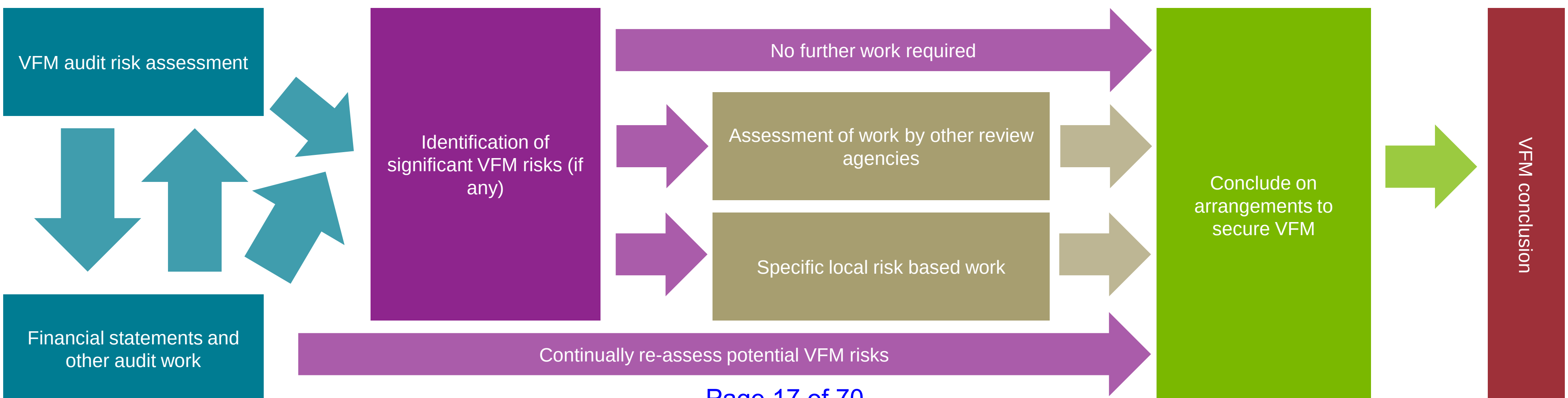
## Background to approach to VFM work

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. The diagram to the right shows the details of this criteria.



# Value for money arrangements work (cont.)

| VFM audit stage | Audit approach |
|---|---|
| **VFM audit risk assessment** | We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.*<br>In doing so we consider:<br>■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;<br>■ Information from the Public Sector Auditor Appointments Limited VFM profile tool;<br>■ Evidence gained from previous audit work, including the response to that work; and<br>■ The work of other inspectorates and review agencies. |
| **Linkages with financial statements and other audit work** | There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.<br>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit. |
| **Identification of significant risks** | The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*<br>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:<br>■ Considering the results of work by the Authority, inspectorates and other review agencies; and<br>■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. |

# Value for money arrangements work (cont.)

| VFM audit stage | Audit approach |
|---|---|
| Assessment of work by other review agencies<br><br>and<br><br>**Delivery of local risk based work** | Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.<br><br>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:<br><br>■ Meeting with senior managers across the Authority;<br><br>■ Review of minutes and internal reports;<br><br>■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector. |
| **Concluding on VFM arrangements** | At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.<br><br>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions. |
| **Reporting** | We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.<br><br>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.<br><br>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report. |

# Value for money arrangements work Planning

**Significant VFM Risks**

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

### Significant Risk 1

- **Delivery of Saving Plans**

  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.

- We will undertake the following procedures over this significant risk:
  - Review the arrangements for assuring delivery of the Authority's savings programme.
  - Review 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.
  - Evaluate the arrangements the Authority have in place in identifying further savings for future years.

### Significant Risk 2

- **Better Care Fund**

  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.

- We will undertake the following procedures over this significant risk:
  - Review the arrangements the Authority has in place to ensure the delivery of Better Care Plans and progress made against the plans.
  - Review the framework to ensuring delivery of the services against targets and consider any actions taken by the Authority where delivery is under performing significantly.
  - Review the overall savings achieved are in line with those planned and consider how the Authority will fund any savings which are not achieved.

# Other matters

## Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

## Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

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

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

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

## Our audit team

Our audit team will be led by Tony Crawley, with Sayeed Haris and David Schofield providing support on a day to day level. Appendix 2 provides more details on specific roles and contact details of the team.

## Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

## Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

## Audit fee

*Our Audit Fee Letter 2015/16* presented to you in April 2015 first set out our fees for the 2015/16 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £98,213 for the Authority. This is a reduction in audit fee, compared to 2014/15, of £36,457 (27%). The planned audit fee for 2015/16 is £29,926 for the Pension Fund. (2014/15: £33,232).

# Appendix 1: Key elements of our financial statements audit approach

**Communication**

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team

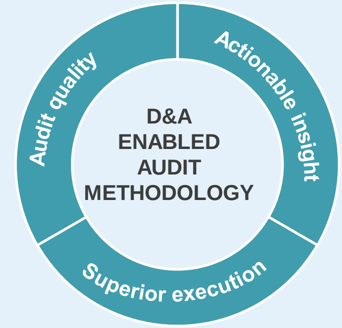
- Audit strategy and plan (Feb/Mar)
- ISA 260 (UK&I) Report (Sep)
- Annual Audit Letter (Nov)

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

**Audit workflow**

- Initial planning meetings and risk assessment (Jan)
- Interim audit (Mar)
- Year end audit of financial statements and annual report (Jun)
- Sign audit opinion (Sep)

| Planning | Control evaluation | Substantive testing | Completion |
|---|---|---|---|
| ■ Perform risk assessment procedures and identify risks<br>■ Determine audit strategy<br>■ Determine planned audit approach | ■ Understand accounting and reporting activities<br>■ Evaluate design and implementation of selected controls<br>■ Test operating effectiveness of selected controls<br>■ Assess control risk and risk of the accounts being misstated | ■ Plan substantive procedures<br>■ Perform substantive procedures<br>■ Consider if audit evidence is sufficient and appropriate | ■ Perform completion procedures<br>■ Perform overall evaluation<br>■ Form an audit opinion<br>■ Audit Committee reporting |




## Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

# Appendix 2: Audit team

**Your audit team has been drawn from our specialist public sector assurance department. Our audit team has been refreshed this year with David Schofield becoming the new Assistant Manager. Tony Crawley and Sayeed Haris were part of the audit last year and will provide continuity to the team.**

| | |
|---|---|
| **Name** | Tony Crawley |
| **Position** | Director |
| | 'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.<br>I will be the main point of contact for the Audit Committee, Chief Executive and Service Director – Finance and Procurement.' |

**Tony Crawley**
Director
0116 2566067
tony.crawley@kpmg.co.uk

| | |
|---|---|
| **Name** | Sayeed Haris |
| **Position** | Manager |
| | 'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Tony to ensure we add value.<br>"I am responsible for the management, review and delivery of the audit of the Authority and Pension Fund. I will liaise with the Service Director – Finance and Procurement, Head of Finance and Head of Internal Audit." |

**Sayeed Haris**
Manager
0116 2566061
sayeed.haris@kpmg.co.uk

| | |
|---|---|
| **Name** | David Schofield |
| **Position** | Assistant Manager |
| | 'I will be responsible for the on-site delivery of our work for both the audit of the Authority and the Pension Fund, and will supervise the work of our audit assistants.' |

**David Schofield**
Assistant Manager
0116 2566074
david.schofield@kpmg.co.uk

# Appendix 3: Independence and objectivity requirements

## Independence and objectivity

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

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

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

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

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

## Confirmation statement

We confirm that as of January 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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, 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 3HZ.



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Nottinghamshire County Council

**Report to AUDIT COMMITTEE**

**16 March 2016**

**Agenda Item: 6**

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

# HIGHWAYS NETWORK ASSET – REVISED VALUATION METHODOLOGY

## Purpose of the Report

1. To update members on the implementation of the CIPFA Transport Infrastructure Asset Code and to assess the potential impact on the 2016/17 Statement of Accounts.

## Information and Advice

2. As dictated by the Accounts and Audit Regulations 2015, the Authority prepares its annual Statement of Accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting ("The Code"). CIPFA have agreed that the 2016/17 edition of "The Code" will adopt the asset valuation requirements of the CIPFA Code of Practice on Transport Infrastructure Assets ("The Transport Code"). The Transport Code was first published in 2010 with the objective of using an asset management based approach to the provision of financial information in relation to transport infrastructure assets.

3. The Authority's transport infrastructure assets are currently measured on a Historical Cost basis and depreciated in accordance with the Authority's Accounting Policies. From 1st April 2016, these assets will be referred to as the "Highways Network Asset" (HNA) and will be measured at Depreciated Replacement Cost. This approach will harmonise the valuation methods used by Local and Central Government and is considered by CIPFA to better reflect the economic value of the substantial assets held and maintained by Local Authorities. The HNA will be inclusive of all inalienable network components such as carriageways, street furniture, structures and land.

4. Depreciated Replacement Cost (DRC) refers to measuring the Current Value of the Highways network by calculating the cost of replacing the asset with its modern equivalent. Deductions are then applied for all forms of physical deterioration based on relevant data relating to age and condition of the assets in use.

5. The Authority has been required to submit Highways asset valuation data under DRC for the annual Whole of Government Accounts since 2011. This exercise has been completed on an unaudited basis at the request of HM Treasury to monitor the readiness of Authorities in advance of full adoption of the Transport Code in 2016/17. The convergence of valuation techniques will help address an underlying discrepancy which has resulted in qualification issues for the Whole of Government Accounts (WGA) since its inception. Such inconsistent accounting policies on a national level are estimated to have an annual impact of at least £200bn.

## Accounting Implications

6. From a financial reporting perspective, the change in valuation methodology will have a significant impact on the financial statements of the Authority. The transitional requirement is for the new valuation to be applied prospectively from 1st April 2016 without any retrospective adjustment. Consequently there will be a substantial increase in the Total Net Assets evident on the Authority's opening Balance Sheet for 2016/17.

7. Currently Infrastructure assets are included under Property, Plant and Equipment at Depreciated Historic Cost. A comparison with the new requirements based on unaudited 2014/15 figures submitted for WGA purposes is as follows:

| Asset Class | Valuation Basis | Valuation @31/3/15 (000's) |
|---|---|---|
| Infrastructure Assets - Current | Depreciated Historic Cost | 480,283 (Audited) |
| Highways Network Asset – New | Depreciated Replacement Cost | 9,197,920 (Unaudited) |

8. In terms of financial context, the Authority's Balance Sheet recorded Total Long Term Assets for 2014/15 of £1.2bn. Consequently, by translating the new DRC valuation into the asset base, the equivalent Total Asset figure is increased to approximately £10bn. As the scale of this change is highly material, any dispute between the Authority and its external auditors in relation to the valuation is likely to pose a high risk to receiving an unqualified Audit for the 2016/17 Statement of Accounts.

9. Whilst this change represents a considerable increase in the value of NCC assets, it should be noted that a compensatory increase to the Revaluation Reserve will nullify the impact so that the overall change to the Net Worth of the Authority's Balance Sheet is zero. There will also be a commensurate increase in the amount of depreciation charged to service revenue accounts to account for the higher value asset base. As regulations prevent depreciation from being charged to the General Fund, there is no associated funding requirement and there will be no impact on the Authority's budget.

## Progress to Date

10. The requirements present a number of practical issues as well as technical accounting challenges. An impact assessment has been jointly completed by colleagues in Finance and Highways to identify the key risks to successful adoption. This has involved identification of relevant assets, reviewing systems and undertaking a gap analysis to address disparity between the Code requirements and the current data held by the Highways Asset Management System (HAMS).

11. As per CIPFA guidance, a Project Plan has been developed that provides a breakdown of key tasks required to ensure the transition to DRC is well managed. Tasks have been

assigned to Finance and Highways staff and high-level milestones identified to ensure sub-tasks are co-ordinated at team level. These tasks will continue to be managed in the same way after the Highways Joint Venture goes live. The project plan has the full support of the Section 151 Officer.

12. As part of wider stakeholder engagement, discussions have been on-going with External Auditors in relation to identifying and managing the risks associated with the transition.

## Next Steps

13. A critical success factor in relation to successful delivery is the need for robust asset data. This is heavily reliant on extracting complete and accurate inventory from relevant Highways systems in a timely manner. To achieve the required outcome, there will be direct input from Internal Audit colleagues in relation to undertaking a systems based audit to secure the required level of assurance in relation to the quality of source data.

14. To ensure the integrity of balances at 31st March 2016 under the new DRC requirements, a dry-run will be conducted on the unaudited Whole of Government Accounts return for 2015/16. This will provide a useful opportunity to identify any issues pending full statutory adoption from 1st April 2016.

15. The Narrative Report (previously referred to as the "Explanatory Foreword") will be updated in the 2015/16 Statement of Accounts to alert users to the changes pending a full revision of Accounting Policy in 2016/17.

## Statutory and Policy Implications

16. 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 overall level of preparedness and the likely impact of the Transport Code on the Authority's Financial Statements for 2016/17.

**Nigel Stevenson**
**Service Director – Finance, Procurement & Improvement**

**For any enquiries about this report please contact:**
Glen Bicknell

**Constitutional Comments (03/03/2016 HD)**

17. None. The report is for noting only.

**Financial Comments (03/03/2016 GB)**

The impact on the Authority's Statement of Accounts is set out in 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.

- None

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

- All

Nottinghamshire County Council

**Report to AUDIT COMMITTEE**

**16 March 2016**

**Agenda Item: 7**

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

**STATEMENT OF ACCOUNTS 2015/16 – ACCOUNTING POLICIES**

## Purpose of the Report

1. To allow the Audit Committee to review and approve the proposed accounting policies used in creating the Authority's Statement of Accounts for 2015/16.

## Information and Advice

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

3. As well as updating the various dates in the policies there is one main change to those approved last year. The Authority is required to make these changes to the Accounting Policies in order to comply with amendments made to the CIPFA Code of Practice 2015/16.

4. Changes to the 2015/16 Code of Practice requires consideration of how the measurement requirements for assets and liabilities will be applied following the adoption of IFRS13. The new standard has no impact on the measurement of Property, Plant and Equipment that is providing operational service potential for the Authority. The Code has changed the measurement requirements for assets classified as Surplus Assets, Investment Property and Assets Held for Sale. These assets are now to be measured at fair value in accordance with the definition required in IFRS13.

5. The proposed accounting policies are attached to the report.

## Other Options Considered

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

## Reason/s for Recommendations

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

## Statutory and Policy Implications

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 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 approve the changes to the Authority's accounting policies.

**Nigel Stevenson**
**Service Director – Finance, Procurement and Improvement**

**For any enquiries about this report please contact:**

Glen Bicknell, Senior Finance Business Partner, Financial Strategy and Compliance

**Constitutional Comments (HD 03/03/2016)**

9. Audit Committee is the appropriate body of the Council to consider the report.

**Financial Comments (GB 03/03/2016)**

10. There are no financial implications arising 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.

- Code of Practice on Local Accounting in the United Kingdom 2014/15

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

- Not applicable

# STATEMENT OF ACCOUNTING POLICIES

## 1. General Policies

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

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

## 2. Exceptional Items

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

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

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

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

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

## 4. Charges to Revenue for Non-Current Assets

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

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

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

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

## 5. Costs of Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users as follows:

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

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

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

## 6. Employee Benefits & Pensions

### Benefits Payable During Employment

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

### Termination Benefits

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

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

### Post-Employment Benefits

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

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

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

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

**The Local Government Pension Scheme (LGPS)**

The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of projected earnings for current employees. In assessing these liabilities at 31 March 2015 for the 2015/16 Statement of Accounts, the actuary made a number of changes in the assumptions underlying the present value of the scheme liabilities. These include a change in the assumed pensions increases and inflation. Application of these revised assumptions has resulted in an increase in liabilities measured at today's prices of £X.X million (£X.X million LGPS, £X.X million Teachers).
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into several components:
  - current service cost / gain – the change in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on scheme assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – credited/debited to the Pensions Reserve

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

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

**Discretionary Benefits**

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

## 7. Revenue Expenditure Financed from Capital Under Statute

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

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

## 8. Property, Plant and Equipment

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

**Recognition**

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

Assets are, however, only recognised when they exceed the de minimus levels for 2015/16 set out below:

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

**Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

- Infrastructure, Community Assets and Assets under Construction – depreciated historical cost
- Heritage Assets - held at valuation or, under certain conditions, historical cost (depreciated where appropriate)
- Operational assets – Current Value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- Non-Operational Assets (i.e. not providing service potential to the Authority) – Fair Value as per the requirements of IFRS13 using the principle of “highest and best use” from a market participants perspective.

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

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

The current land and building values used in the Statement of Accounts are based upon a certificate as at 31 March 2016 issued by Mr I Brearley MRICS, Team Manager – Property and Strategy Management from the Council's Property Division, on Xth XXXX 2016. A rolling 5 year revaluation programme is in place to maintain the accuracy of the valuations. When significant changes occur in any year they are included in the revaluation schedule undertaken during that year.

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

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

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

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

**Impairment**

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

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

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

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

**Depreciation**

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

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

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

Where an item of Property, Plant and Equipment has major components whose costs are at least 20% of the total cost of the item, the components are depreciated separately. A review was carried out for all items over a de minimus of £0.5 million. For the 2015/16 Statement of Accounts, the Authority has not identified any components to be depreciated separately.

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

**Disposals and Non-current Assets Held for Sale**

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

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

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

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

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

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

## 9. Financial Assets

Financial assets are classified into two types:

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

**Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and

Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

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

**Available for Sale Assets**

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

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

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

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

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

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

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

## 10. Cash and Cash Equivalents

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

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

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

## 11. Other Assets

**Intangible Assets**

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

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

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

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

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

### Interests in Companies and Other Entities

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

### Investment Property

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

Investment Properties are measured initially at cost and subsequently at fair value as per the requirements of IFRS13. Fair value is based on the amount at which the asset could be sold in an orderly transaction between knowledgeable market participants at the measurement date. As a non-financial asset, an investment property will be measured at its highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

### Jointly Controlled Operations and Jointly Controlled Assets

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

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

## 12. Inventories

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

## 13. Accruals of Income and Expenditure

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

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

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

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

## 14. Financial Liabilities

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

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

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

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

## 15. Leases

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

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

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

## The Authority as Lessee

### Finance Leases

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

Lease payments are apportioned between:

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

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

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

### Operating Leases

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

## The Authority as Lessor

### Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

**Operating Leases**

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

## 16. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-down is calculated using the same principles as for a finance lease)

- lifecycle replacement costs – charges for ongoing maintenance of the Property, Plant and Equipment debited to the relevant scheme.

## 17. Government Grants and Contributions

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

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

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

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

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

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

## 18. Provisions

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

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

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

## 19. Contingent Liabilities

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

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

## 20. Contingent Assets

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

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

No contingent assets have been identified for the Authority at 31 March 2016.

## 21. Reserves

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

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

## 22. VAT

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

## 23. Events After the Balance Sheet Date

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

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

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

## 24. Foreign Currency Translation

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

## 25. The Carbon Reduction Scheme

The authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31

March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

## 26. Heritage Assets

### Tangible and Intangible Heritage Assets

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

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

### Ceremonial Regalia and Art Collection

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

### Architectural Drawings and Records

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

### Heritage Assets – General

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

## 7. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for Local Authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Local Authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Local Authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

**Accounting for Schools Property, Plant and Equipment**

The Authority has made detailed judgements regarding the control exercised over schools run in a wide variety of ways to determine whether non-current assets should be treated as on or off Balance Sheet. The treatment of all schools has been considered by analysis predicated on the application of tests inherent within the following IFRS adopted by the CIPFA Code (Module 4 – Non Current Assets) – IAS16 – Property, Plant and Equipment, IAS17 – Leases and IFRIC12 – Service Concession Arrangements. This has resulted in the following treatment:

- Academy schools - off-Balance Sheet
- Foundation schools - on-Balance Sheet
- Voluntary Aided schools – off-Balance Sheet
- Voluntary Controlled schools – off-Balance Sheet
- Community schools – on-Balance Sheet

Nottinghamshire County Council

**Report to Audit Committee**

**16 March 2016**

**Agenda Item: 8**

**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT AND IMPROVEMENT**

**INTERNAL AUDIT PLAN – 2016/17**

## Purpose of the Report

1. To inform Members of the proposed Internal Audit Plan for the 2016/17 financial year.

## Information and Advice

2. Internal Audit is defined as 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 evaluating and improving the effectiveness of risk management, control and governance processes.

3. The Public Sector Internal Audit Standards require the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. As part of the planning process, account is taken of external sources of assurance, including the work of external inspectorates. Where audits are planned, pre-audit work will also include discussion with managers over sources of assurance that can be relied upon, to prevent duplication.

4. The attached Audit Plan sets out the proposed coverage of the Authority's systems and procedures which deliver the Council's priorities, for the period 2016/17. The Plan represents the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control.

5. The Annual Plan is based on an audit needs assessment to identify the priority activities for audit coverage. Each area of activity in the Council is assessed in terms of the following factors:
    - Value and volume of transactions involved with the activity
    - The known level of internal control in place (from previous audits)
    - The value of cash and bank transactions
    - The relative complexity of the activity
    - Whether the activity is stable or subject to change
    - How sensitive the activity is for the Council among its key stakeholders
    - The number of sites where the activity is carried out
    - The number of years since the previous audit

Using an established system of scoring and weighting the above factors, the needs assessment arrives at a high/medium/low risk-rating for each area of activity.

6. The outcomes of the Audit Needs Assessment, and the proposed audit coverage, were discussed between January and March at departmental leadership teams. As part of this, more detailed consultations took place with Service Directors and their management teams. The Audit Plan is implemented flexibly, and will continue to change to ensure that any emerging priorities during the year are addressed.

7. The role of Internal Audit is to provide management with an objective assessment of whether its systems and controls are working properly. It provides an independent and continuous appraisal of the Authority's activities and in particular focuses on the internal controls established by the organisation's managers. The Section's aim is to complete the programme of planned work in order to express an overall view on the adequacy and effectiveness of the Authority's internal control systems.

8. This work is important in enabling the County Council's External Auditors to form a view on the overall adequacy of the Council's financial controls, which in turn supports their assessment of whether the County Council's annual statement of accounts gives a "true and fair view". The work is also a key contributory factor in the preparation of the Council's Annual Governance Statement.

9. The Plan has been compiled in accordance with the Public Sector Internal Audit Standards, which came into force in 2013. A detailed breakdown of the plan is shown in ***Appendix 1***, and is summarised in ***Table 1***, below.

***Table 1***: Summary of Internal Audit Plan for 2016/17

| **Department** | **Days** | **Number of Audits** | | | |
|---|---|---|---|---|---|
| | | **High Risk** | **Med Risk** | **Other** | **Total** |
| Council-wide | 250 | 14 | - | - | 14 |
| Children, Families & Cultural Services (excluding schools) | 190 | 1 | 11 | 3 | 15 |
| Schools | 350 | - | 54 | - | 54 |
| Adult Social Care, Health & Public Protection | 275 | 6 | 10 | 4 | 20 |
| Place | 201 | 4 | 7 | 3 | 14 |
| Resources | 269 | 8 | 9 | - | 17 |
| Contingency | 100 | | | | |
| Total County Council | 1635 | 33 | 91 | 10 | 134 |
| External Clients (Notts Fire & Rescue, School Funds) | 130 | | | | |
| Grand Total | 1765 | | | | |

10. As can be seen from the above, a total of 1,765 days are planned for 2016/17 of which 1,635 (93%) will be spent on the Authority's systems and procedures. The remaining 130 days will be spent on external contracts, providing an internal audit service to Nottinghamshire Fire and Rescue Service and work on school funds. External contracts help the section maintain high quality services and costs are fully recovered.

11. The Audit Plan shows a reduction in terms of the number of days to that in 2015/16. This is due to a restructure in the section involving a reduction of 2.82 auditors (including vacant posts), with effect from 1 April 2016. The reduction will ensure the section meets its savings target established in the outline business case process for 2016/17. The restructure will enable a continuation of the changes implemented over the past two years to provide more consultancy-style work and to audit increasingly complex areas. In particular, the section needs to continue its inputs to the set-up of the Alternative Service Delivery Models in the council, and to assess the impact of these new approaches to the on-going nature of Internal Audit's work in these areas of activity. ***Table 2*** sets out planned coverage in previous years, as an indicator of the changing plans over the years.

***Table 2***: Changes in the Planned Audit Days for the Council, Planned Jobs, Council Gross Turnover and Internal Audit cost per £ million turnover between 2008/09 and 2016/17

| Year | Planned days | Planned audits | Council Gross turnover (£m) | Audit Cost per £m expenditure (£) |
|---|---|---|---|---|
| | | | | |
| 2008/09 | 2,288 | 191 | 1,201 | 561 |
| 2009/10 | 2,233 | 169 | 1,240 | 510 |
| 2010/11 | 2,196 | 157 | 1,253 | 448 |
| 2011/12 | 1,955 | 136 | 1,283 | 323 |
| 2012/13 | 1,923 | 147 | 1,215 | 313 |
| 2013/14 | 1,929 | 139 | 1,093 | 329 |
| 2014/15 | 1,727 | 119 | 1,093 | 334 |
| 2015/16 | 1,719 | 142 | 1,110 | 330 |
| 2016/17 | 1,635 | 134 | 1,157 | 279 |

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

**Other Options Considered**

13. This report is for information and noting only.

**Reason/s for Recommendation/s**

14. To provide information to Members on the Internal Audit Plan of work for 2016/17.

## Statutory and Policy Implications

15. 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

1) That the Internal Audit Plan 2016/17 be noted.

**Nigel Stevenson**
**Service Director (Finance, Procurement and Improvement)**

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

**Constitutional Comments**

16. This report is for noting only.

**Financial Comments (SES 23/02/16)**

17. The financial implications are set out in the report.

**Background Papers**

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

- None

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

- All

## Appendix 1

## Council-wide areas (i.e. across departments)

| Area of activity | Risk Level | Days planned and nature of audit coverage: Assurance | Advice/ Consultancy | Counter-Fraud | Certification | Likely scope |
|---|---|---|---|---|---|---|
| Accounts Receivable & Debt Management | High | 20 | | | | Assurance review of key controls and their consistent application across departments. |
| Agency Staff & Consultants | High | 10 | | | | Follow-up of 15/16 action plan. |
| Budgetary Control | High | 15 | | | | Completion of assurance review commencing in Q4 of 15/16. |
| Capital Programme | High | 15 | | | | Controls over the quality, cost and delivery of a sample of key schemes in the capital programme. |
| Commissioning | High | 25 | | | | Assurance review of key controls and their consistent application across departments. |
| Counter-Fraud | High | | | 20 | | Pro-active counter-fraud actions in the Fraud Strategy. |
| Devolution | High | | 15 | | | Advisory input to the development of inter-organisational governance and financial control. |
| Employee recruitment, remuneration & management | High | 25 | | | | Assurance review of key controls and their consistent application across departments. |
| Information Governance | High | 5 | | | | Completion of follow-up review commencing in Q4 of 15/16. |
| Procurement to Pay | High | 15 | | | | Completion of assurance review commencing in Q4 of 15/16, incorporating the follow-up of the previous action plan for council-wide procurement. |
| Purchase Cards & Credit Cards | High | 20 | | | | Controls over the appropriate use of these non-purchase order options for the swift procurement of certain categories of goods and services. |
| Redefining Your Council | High | | 15 | | | Input to transformation projects to advise on the implications for internal controls and VFM. |
| Risk Management | High | 15 | | | | Assurance review of the corporate and departmental risk management process.<br>Plus attendance at the RSEMB. |
| Service Planning & Performance Management | High | 5 | | | | Follow-up of 15/16 action plan. |
| Audit Committee Support | n/a | | 30 | | | Support of, and attendance at, Audit Committee. |
| ***Sub-Totals*** | | **170** | **60** | **20** | **-** | |
| ***Grand Total*** | | | **250** | | | |

## Children, Families and Cultural Services

| Area of activity | Risk Level | Days planned and nature of audit coverage: Assurance | Advice/ Consultancy | Counter-Fraud | Certification | Likely scope |
|---|---|---|---|---|---|---|
| Direct Payments - Children's Disability Service | Med | 15 | | | | Assurance review of how the department monitors and controls the spending of direct payments by service users and third parties. |
| External Placements | Med | 10 | | | | Follow-up of 15/16 action plan. |
| Fostering – Financial Support | Med | 15 | | | | Assurance review of key controls, once new scheme for fostering allowances is implemented in early 16/17. |
| Secure Accommodation | Med | 5 | | | | Continuation of follow-up of the previous audit's action plan. |
| Locality Client Accounts | Med | 10 | | | | Follow-up of 15/16 action plan. |
| Premature Retirement & Redundancy - Schools | Med | 15 | | | | Assurance review of compliance with policy for approving premature retirement or redundancy in LA maintained schools. |
| SEND Independent Special Schools | Med | 15 | | | | Assurance review of key financial and contract controls over placement of eligible children and young people in independent special schools. |
| Country Parks & Green Estate | Med | 15 | | | | Assurance review of key controls and their consistent application across locations, notably concerning income and trading. |
| School Swimming | Med | 10 | | | | Follow-up of 15/16 action plan. |
| Troubled Families programme | Med | 10 | | | | Completion of assurance review commencing in 15/16. |
| Schools' Statutory Reserve | High | 20 | | | | Review of level and use of balances in the Schools' Statutory Reserve |
| Healthcare Funding | Med | 15 | | | | Assurance review of key controls over securing contributory health funding for expenditure on eligible children and young people. |
| Beeston Youth Centre Accounts | n/a | | | | 2.5 | Certification of annual accounts. |
| Youth Club Funds | n/a | | 2.5 | | | Advice on controls following sample testing of subscriptions to youth clubs and associated spending. |
| Advice & client management | n/a | | 30 | | | Responding to ad hoc requests for advice and liaison with senior managers over audit plans and progress. |
| Schools – audit of 54 schools | Med | 350 | | | | Review of a range of factors relating to School Budget Share. |
| ***Sub-Totals*** | | **505** | **32.5** | **-** | **2.5** | |
| ***Grand Total*** | | **540** | | | | |

## Adult Social Care, Health and Public Protection

| Area of activity | Risk Level | Days planned and nature of audit coverage | | | | Likely scope |
|---|---|---|---|---|---|---|
| | | Assurance | Advice/ Consultancy | Counter-Fraud | Certification | |
| Day Services & Employment | High | 15 | | | | Assurance review of key controls and their consistent application across locations. |
| Direct Services ASDM | n/a | | 5 | | | Continuation of advisory input should the outline business case for a LATCo be accepted or an alternative course of action proposed. |
| Better Care Fund Pooled Budget | High | 10 | | | | Completion of assurance review commencing in 15/16. |
| Delayed Transfers of Care | Med | 20 | | | | Assurance review of how performance team and hospital teams respond to the daily situation reports collected from acute trusts. |
| Care Home Payments | Med | 15 | | | | Assurance review of key controls over payments to care homes. |
| Data Quality Audit | High | 15 | | | | Follow-up of Feb-15 action plan |
| Direct Payments | Med | 15 | | | | Assurance review of how the department monitors and controls the spending of direct payments by service users and third parties. |
| Domiciliary Care & Financial Assessments | Med | 15 | | | | Assurance review of controls over financial assessments of eligible service users and any resulting contributions. |
| Domiciliary Care Payments | Med | 15 | | | | Assurance review over key controls over claims from, and payments to, providers of domiciliary care. |
| Domiciliary Care Procurement | n/a | | 5 | | | Advisory input on procurement and contract risks to re-procuring for core providers of domiciliary care. |
| Locality Client Accounts | Med | 10 | | | | Follow-up of 15/16 action plan. |
| Care & Support Centres | Med | 5 | | | | Continuation of follow-up of 15/16 action plan. |
| Shared Lives | High | 10 | | | | Follow-up of 15/16 action plan. |
| Short Break Services | High | 15 | | | | Assurance review of key controls and their consistent application across locations, including over issues arising from CQC inspections. |
| Residential Care Contracts - Younger Adults | High | 15 | | | | Assurance review of procurement and contract controls, once dynamic purchasing system is implemented in early 16-17. |
| Trading Standards | Med | 15 | | | | Assurance review of key controls over handling and security of cash and other exhibits, including risks to staff |
| TSEM Audit Certificates | n/a | | | | 5 | Certification of spending against annual grants of over £100,000 to Trading Standards East Midlands, including Scambusters |
| Emergency Planning & Management | Med | 20 | | | | Assurance review of the likely sufficiency and effectiveness of arrangements in place to manage emergencies and civil contingencies. |
| Coroner's Grant | Med | 15 | | | | Assurance review of arrangements for NCC co-funding of HM Coroner's Service for Nottinghamshire, and of the use of grant. |
| Procurement of taxis by staff for service users | n/a | | 5 | | | Advisory input should the department conduct an internal review that subsequently reveals control weaknesses or overspends against budgets. |
| Advice & client management | n/a | | 30 | | | |
| ***Sub-Totals*** | | **225** | **45** | **-** | **5** | |
| ***Grand Total*** | | **275** | | | | |

## Place

| Area of activity | Risk Level | Days planned and nature of audit coverage: Assurance | Advice/ Consultancy | Counter Fraud | Certification | Likely scope |
|---|---|---|---|---|---|---|
| Broadband | Med | | 10 | | | Advice concerning the effectiveness of controls in advance of the closure of Contract 1. |
| Innovation Centres | Med | 15 | | | | Assurance review of controls over income and expenditure across the centres. |
| LEADER Programmes | Med | 10 | | | | Review of compliance with established controls, following advisory input in 15/16. |
| Notts Economic Development Capital Fund | Med | 8 | | | | Continuation of initial audit undertaken in 15/16 to test for compliance with payment controls. |
| Carbon Reduction Certificate | n/a | | | | 5 | Certification of the annual CRC return. |
| Property Service Joint Venture (Arc) | High | 15 | 10 | | | Continuation of advisory input during the early part of the year as procedures with Arc are set up. Followed by compliance work later in the year to review contract and performance management. |
| Bus Services Operators' Grant | n/a | | | | 5 | Certification of BSOG return. |
| Concessionary Fares – Online Applications | n/a | | 5 | | | Advisory input to controls over online applications for concessionary travel passes. |
| Local Bus Services Subsidies | High | 15 | | | | Assurance review of controls over the payment of subsidies for local bus services. |
| Travel Solutions Hub | High | 15 | | | | Evaluation of key controls for the effective operation of the transport hub. |
| Waste Management | Med | 15 | | | | Completion of assurance review commencing in Q4 of 15/16 to review contract monitoring arrangements. |
| Highways Joint Venture (Via) | High | 15 | 10 | | | Continuation of advisory input during the early part of the year as procedures with Via are set up. Followed by compliance work later in the year to review contract and performance management. |
| Parking Services | Med | 10 | | | | Completion of assurance review commencing in Q4 of 15/16. |
| Shale Gas Planning Applications | Med | 8 | | | | Compliance review with key controls, following the provision of advice during 15/16. |
| Advice & client management | n/a | | 30 | | | Responding to ad hoc requests for advice and liaison with senior managers over audit plans and progress. |
| ***Sub-Totals*** | | **126** | **65** | **-** | **10** | |
| ***Grand Total*** | | | **201** | | | |

## Resources

| Area of activity | Risk Level | Days planned and nature of audit coverage: Assurance | Advice/ Consultancy | Counter Fraud | Certification | Likely scope |
|---|---|---|---|---|---|---|
| Digital Services | Med | 15 | | | | Assurance review of agreed aspects of the service area. |
| Accounting & Clearing House | High | 15 | | | | Controls over accountancy processing (including interfaces), balancing and reporting. |
| Competency Centre & BMS | High | 15 | | | | Completion of assurance review commencing in Q4 of 15/16 over the management of access to BMS. |
| Payroll | High | | | 15 | | Completion of analytical review commenced in 15/16 to test the payroll for apparent anomalous transactions. |
| Pensions | High | 15 | | | | Assurance review of key controls following advisory input in 15/16 to the implementation of the Civica UPM system for the administration of pensions. |
| Corporate Bank Accounts | High | 12 | | | | Assurance review of controls over access to, and management of, the council's corporate accounts. |
| Government Statistical Returns | Med | 12 | | | | Accuracy and reliability of data sources and understanding of how the returns may influence government funding. |
| Medium Term Financial Strategy | High | 15 | | | | Review of controls around: risk management; comprehensive & reliable data sources; options appraisal; monitoring & review. |
| ICT – Database Management | Med | 15 | | | | Activity of the Database Admin team in providing the required support. |
| ICT – Desktop Management | Med | 15 | | | | ICT support to the business in providing appropriate hardware and software. |
| ICT – External Assurance Review | High | 15 | | | | Review of actions taken in response to external assessors' findings and recommendations. |
| ICT – Procurement, Inventory & Asset Management | Med | 15 | | | | Controls over the procurement, recording and maintenance of ICT equipment and the management of software licences. |
| ICT – Project Delivery | Med | 15 | | | | Compliance with NCC project management methodology. |
| ICT – Service Level Management | Med | 15 | | | | Availability and capacity management, including SLAs relating to internally provided services. |
| ICT – Service Desk Management | Med | 15 | | | | Assurance that the ICT service desk provision adequately supports the business. |
| ICT Applications – CM2000 | Med | 5 | | | | Review of key controls over the application, to link with the assurance review in ASCHPP of domiciliary care payments to providers. |
| ICT Applications – Mosaic (Frameworki upgrade) | High | | 15 | | | Input to the social care system upgrade, to advise on the design and implementation of key controls. |
| Advice & client management | n/a | | 30 | | | Responding to ad hoc requests for advice and liaison with senior managers over audit plans and progress. |
| ***Sub-Totals*** | | **209** | **45** | **15** | **-** | |
| ***Grand Total*** | | **269** | | | | |

Nottinghamshire County Council

**Report to Audit Committee**

**16 March 2015**

**Agenda Item: 9**

**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT AND IMPROVEMENT**

**AUDIT COMMITTEE TRAINING**

## Purpose of the Report

1. To offer Members the opportunity to attend an Audit Committee training session and to seek views on the most appropriate scheduling and venue for the event.

## Information and Advice

2. CIPFA best practice for effective audit committees includes the benefits that regular and appropriate training can bring. The guidance recommends that the framework of support made available to audit committee members should include the provision of induction, briefings and a programme of training.

3. Recent training and briefings for this committee have included a presentation at the April 2015 meeting by the Head of Internal Audit on the role of the audit committee in local authorities. This was followed by briefings on a selected topic at the September 2015 meeting (ICT audit) and at the December 2015 meeting (procurement update).

4. The arrangements for training have been the subject of recent discussion at the Nottinghamshire Audit Group (NAG). This is a forum attended by the Heads of Internal Audit from the County Council, Nottingham City Council and each District Council in the county. The consensus was that further training in the effectiveness of audit committees would be both timely and of interest to the members at most of the local councils. It was agreed that the option of a countywide training session should be explored, to provide the opportunity to share learning and experiences, and to provide best value in the cost of delivery.

5. The County Council's external auditors, KPMG, have a wide experience of the operation of audit committees in the public sector and of providing training sessions to committee members. Recent discussion between NAG members and KPMG has resulted in the offer of a training session to be delivered to Audit Committee members from all of the Nottinghamshire councils. Outline details of the training session are set out below.

   ***Potential topics to be covered***
   - The features of an effective Audit Committee
   - Agenda management
   - Risk management – the basics

   ***Attendees***
   To be open to all members of Audit Committees at the Nottinghamshire councils.

***Training delivery***
The aim would be for each Council's Audit Committee members to be seated together, to facilitate an interactive session with the emphasis on self-reflection. The opportunity to feed back learning and experiences to the wider group would be built in.

**Proposed timescale**
Half-day session to be held on an agreed date between mid-April and mid-May 2016. The training could be delivered as a morning, afternoon or evening session.

***Possible Venue***
Gedling Borough Council has offered to host the event.

***Costs***
KPMG are offering this session free of charge.
The event would be an approved duty and, should it take place at Gedling Borough Council, the likely travel expenses for attendance by all members of the Nottinghamshire Audit Committee are estimated to be £125.
A reasonable contribution to the cost of hosting the event may be required and could be met from the Members' training budget.

6. Members' views and suggestions for the topics to be covered by the training session would be welcome.

**Other Options Considered**

7. A separate training session for members of Nottinghamshire County Council's Audit Committee could be arranged. Following the staging of the free event offered by KPMG, Members may wish to consider a future follow-up session, targeted at the specific needs of this Committee. There would be a charge for the design and delivery of a follow-up session.

**Reason/s for Recommendation/s**

8. To offer Members the opportunity to benefit from training in the effectiveness of audit committees, to influence the training's coverage and to subsequently apply learning to the work of the Nottinghamshire Audit Committee.

## 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 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

1) Consideration is given to Audit Committee Members' attendance at the training session offered by KPMG.

**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 22/02/16)**

10. The report is for noting.

**Financial Comments (SES 23/02/16)**

11. The financial implications are set out in the report.

**Background Papers**

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

- None

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

- All

Nottinghamshire County Council

**Report to Audit Committee**

**16 March 2016**

**Agenda Item: 10**

# 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

| Report Title | Brief summary of agenda item | For Decision or Information | Lead Officer | Report Author |
|---|---|---|---|---|
| **8 June 2016** | | | | |
| Annual External Audit Fees | To inform Members of proposed external audit fees for 2016/17 | 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 2015/16 | Report of the Head of Internal Audit providing an internal audit opinion on the Authority's level of internal control during 2015/16 | Information | Rob Disney | Rob Disney |
| Financial Regulations Waivers 2015/16 | Inform Members of any braches of / and waivers of the Council's Financial Regulations | Information | Clare Winter | Clare Winter |
| Draft Annual Governance Statement 2015/16 | Review and comment on the draft Annual Governance Statement prior to being forwarded on to Full Council to accompany the Statement of Accounts | Decision | Rob Disney | Rob Disney |
| Annual Fraud Report 15/16 | Inform Members of any detected fraud issues | Information | Rob Disney | Rob Disney |
| Briefing – Procurement Contracts and Update on the role of the Project Manager | Information given to Members to help them understand the Audit process and update them on how the Project Managers role is progressing | Information | Clare Winter | Clare Winter |
| **7 September 2016** | | | | |
| 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 |
| Review of Financial Regulations | To review and update the Financial Regulations | Decision | Nigel Stevenson | Glen Bicknell |
| Briefing – Subject TBA | Information given to Members to help them understand the Audit process | Information | Rob Disney | Rob Disney |

| Report Title | Brief summary of agenda item | For Decision or Information | Lead Officer | Report Author |
|---|---|---|---|---|
| **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 |
| Review of Financial Regulations | To review and update the Financial Regulations | Decision | Nigel Stevenson | Glen Bicknell |
| 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 |
| Briefing – Subject TBA | Information given to Members to help them understand the Audit process | 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 2015/16 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 2015/16 | Information | Rob Disney | Rob Disney |
| External Audit Plan 2016/17 | To provide information on the External Auditors' Audit Plan for their 2015/16 Audit. | Information | Nigel Stevenson | Glen Bicknell / External Auditor |
| Certification of Grants and Returns 2015/16 | To provide information on the External Auditors' Annual Report 2014/15 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 2016/15 | Information | Nigel Stevenson | Glen Bicknell / External Auditor |
| Briefing – Subject TBA | Information given to Members to help them understand the Audit process | Information | Rob Disney | Rob Disney |

| Report Title | Brief summary of agenda item | For Decision or Information | Lead Officer | Report Author |
|---|---|---|---|---|
| **14 June 2017** | | | | |
| Annual External Audit Fees | To inform Members of proposed external audit fees for 2016/17 | 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 2015/16 | 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 16/17 | Inform Members of any detected fraud issues | Information | John Bailey | John Bailey |
| Briefing – Subject TBA | Information given to Members to help them understand the Audit process | Information | John Bailey | John Bailey |