

## Audit Committee

**Wednesday, 07 December 2016 at 10:30**

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

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### AGENDA

- |   |  |         |
|---|--|---------|
| 1 | Minutes of the last meeting held on 7 September 16   | 3 - 6   |
| 2 | Apologies for Absence  |         |
| 3 | Declarations of Interests by Members and Officers:- (see note below)<br>(a) Disclosable Pecuniary Interests<br>(b) Private Interests (pecuniary and non-pecuniary) |         |
| 4 | Follow-up of Internal Audit Recommendations  | 7 - 20  |
| 5 | Nottinghamshire County Councils PFI Contracts  | 21 - 32 |
| 6 | Internal Audit Progress - April 2016 to September 2016   | 33 - 46 |
| 7 | External Audit - Annual Audit Letter 2015 16 and Progress Report   | 47 - 70 |
| 8 | Work Programme   | 71 - 76 |

### Notes

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

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

Customer Services Centre 0300 500 80 80

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

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

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

Meeting      AUDIT COMMITTEE

Date          7 September 2016 (commencing at 10.30 am)

**membership**

Persons absent are marked with `A`

**COUNCILLORS**

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

Reg Adair  
Glynn Gilfoyle  
Stan Heptinstall  
Tom Hollis

David Kirkham  
Bruce Laughton  
John Wilmott

**ALSO IN ATTENDANCE**

Tony Crawley                    )      KPMG LLP  
Sayeed Haris                    )

**OFFICERS IN ATTENDANCE**

Jayne Francis-Ward            )      Corporate Director, Resources  
Sarah Ashton                    )  
Rob Disney                       )      Resources  
Glen Bicknell                    )  
Keith Palframan                )

**CHANGES TO COMMITTEE MEMBERSHIP**

Councillor Glynn Gilfoyle had been appointed in place of Councillor John Clarke for this meeting only. Councillor Bruce Laughton had been appointed in place of Councillor John Handley for this meeting only and Councillor Stan Heptinstall had been appointed in place of Councillor Ken Rigby for this meeting only.

**MINUTES OF THE LAST MEETING HELD ON 8 JUNE 2016**

The minutes of the last meeting of the Committee held on 8 June 2016, having been circulated, were confirmed and signed by the Chair.

## **APOLOGIES FOR ABSENCE**

None

## **DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS**

None

## **POTENTIAL AREAS FOR DEVELOPMENT FOLLOWING AUDIT COMMITTEE TRAINING**

Rob Disney (Head of Internal Audit) introduced the report to discuss potential areas for development following the recent Audit Committee training. Members were also invited to comment on expected timing of any developments to be implemented.

### **RESOLVED 2016/019**

That a training programme be developed for the next administration's Audit Committee, building in most of the suggestions raised in Table 1 of the report.

## **EXTERNAL AUDIT – ANNUAL GOVERNANCE REPORTS**

Glen Bicknell (Senior Accountant) and Sayeed Haris (KPMG's Audit Manager) introduced the report which informed members of the External Auditors' Annual Governance Reports on the County Council and Pension Fund.

### **RESOLVED 2016/020**

- 1) That the matters raised in the report be noted.
- 2) That the letter of representation be noted.

## **INTERNAL AUDIT CHARTER**

Rob Disney (Head of Internal Audit) explained changes in the updated version of the Internal Audit Charter.

### **RESOLVED 2016/021**

That the revised Internal Audit Charter be approved.

## **FOLLOW-UP OF INTERNAL AUDIT RECOMMENDATIONS**

Rob Disney (Head of Internal Audit) introduced the report which informed members of the progress with the implementation of agreed management actions following Internal Audit recommendations.

### **RESOLVED 2016/022**

That the progress detailed in the report and appendix be noted.

That the Committee would ask for more detailed updates on progress from relevant managers as and when they deem it necessary.

## **WORK PROGRAMME**

### **RESOLVED: 2016/023**

That the work programme be noted.

The meeting closed at 11.15 am

**CHAIRMAN**



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

**FOLLOW-UP OF INTERNAL AUDIT RECOMMENDATIONS**

**Purpose of the Report**

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

**Information and Advice**

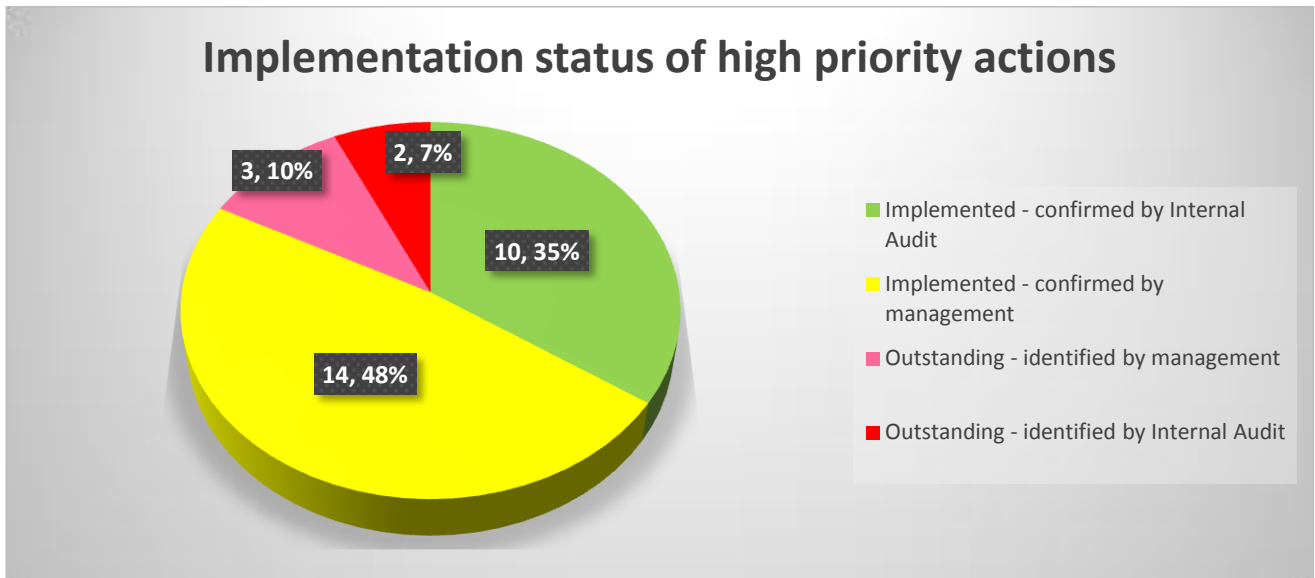
2. Internal Audit carries out regular follow-up work to obtain assurance that the actions proposed by management in response to Internal Audit's recommendations are being taken. This assurance is obtained in two phases, as set out below:

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

3. During each quarter between meetings of the Audit Committee, Internal Audit carries out the following work to provide an update on progress:
  - For recommendations agreed in audit reports issued since the date of the previous meeting, seeking assurance from management that agreed actions have been taken in accordance with the proposed timescales
  - For actions previously confirmed to have been taken by management, carrying out compliance testing to confirm satisfactory implementation.

### High Priority Actions

4. **Appendix 1** sets out the updated position with the high priority actions arising in recent Internal Audit reports. This sets out details of the agreed management actions, the management assurances received and the outcome of Internal Audit's follow-up testing to date. The appendix also indicates the proposed timing for follow-up testing by Internal Audit in future quarters. The current status of the high priority actions is summarised in the following chart:



5. As reported in September 2016, a high level of assurance was received from management that agreed actions on high priority recommendations have been implemented. Since the last meeting, Internal Audit has completed follow-up testing in the following areas of service, and with the following outcomes:
- Adults' Social Care, Health & Public Protection (ASCHPP) Dept.: District Client Accounts – follow-up testing confirms that most of the agreed actions have been taken.
  - ASCHPP – Shared Lives: substantial progress has been made to achieve greater consistency in the standard of financial safeguarding records held for service users.
  - Children's, Families' & Cultural Services (CFCS) Dept.: External Placements – the action to ensure all service provision is sourced through appropriate procurement routes continues to progress
  - CFCS Dept.: Clayfields Secure Unit – follow-up testing confirms that the agreed actions have been implemented.
  - Place Dept.: Broadband – the action to discontinue use of the limit order had not been implemented, but will now be put in place in time for the next quarterly invoice from the supplier.
6. Since the previous meeting of the Audit Committee, further high priority actions have been agreed with management in the following areas of service:
- Cross-cutting: Agency Staff and Consultants
  - Cross-cutting: Information Governance
- In both cases, the implementation timescales extend into the 4<sup>th</sup> quarter of 2016/17, and beyond in some cases, therefore management assurances will be sought at the appropriate



time and reported to the Audit Committee in a future update. Follow-up testing by Internal Audit will then be scheduled for a future quarter.

7. The outstanding high priority actions relate to the following:
  - ASCHPP District Client Accounts – issue of revised staff guidance on the management of service users’ finances.
  - CFCS Locality based client accounts – implementation of a revised approach to handling charitable gifts to support particular children and families.
  - CFCS External placements – implementation of compliant procurement procedures.
  - Place Broadband – adoption of a conventional ordering process.
  
8. Just as Internal Audit’s latest recommendations and the associated management actions are continually added to the follow-up procedure, actions confirmed to have been implemented need to be removed from monitoring. This will ensure that the scope of the monitoring reports remains manageable. Appendix 1 identifies 18 high priority actions confirmed by Internal Audit to have been implemented, and these will now be removed from future updates.

**Medium, Low & VFM Priority Actions**

9. Progress with implementation of these recommendations is summarised in the following table. The figures represent the assurance updates received from management.

<b>Recommendation Breakdown</b>	<b>ASCH&amp;PP</b>	<b>CFCS</b>	<b>PLACE</b>	<b>RESOURCES</b>	<b>CROSS-CUTTING</b>	<b>TOTALS</b>
<b>MEDIUM PRIORITY</b>						
Agreed	23	34	18	7	31	113
Implemented	17	34	17	6	7	81(72%)
In progress	0	0	1	0	9	10(9%)
Not yet due	6	0	0	1	15	22(19%)
Outstanding	0	0	0	0	0	0(0%)
<b>LOW PRIORITY</b>						
Agreed	8	4	11	6	3	32
Implemented	8	4	10	1	0	23(72%)
In progress	0	0	0	0	1	1(3%)
Not yet due	0	0	0	5	2	7(22%)
Outstanding	0	0	1	0	0	1(3%)
<b>VALUE FOR MONEY</b>						
Agreed	2	1	2	1	0	6
Implemented	1	1	2	1	0	5(83%)
In progress	0	0	0	0	0	0
Not yet due	1	0	0	0	0	1(17%)
Outstanding	0	0	0	0	0	0

10. With the exception of one low priority action, management consider all actions due to have been taken at this time have either been implemented or are in progress. Internal Audit’s follow-up testing of medium priority actions has not identified any on which no progress has been made. This continues to provide a very positive level of assurance that improvements to the Council’s system of internal control are being made as a result of Internal Audit’s work.

### ***Management updates to the Audit Committee***

11. Arising from the details presented in this report, the Committee may consider that it requires further updates and assurances from management at its next meeting in March 2017 in relation to one or more of the areas in which agreed actions remain outstanding.

### **Other Options Considered**

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

### **Reason/s for Recommendation/s**

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

### **Statutory and Policy Implications**

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

### **Financial Implications**

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

## **RECOMMENDATION/S**

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

**Nigel Stevenson**

**Service Director – Finance, Procurement and improvement**

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

**Constitutional Comments [KK 14/11/2016]**

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

### **Financial Comments [RWK 14/11/2016]**

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

### **Background Papers and Published Documents**

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

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

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

- All



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

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
A10	Reminder to co-ordinators to load monitoring visit records to Framework every 3 months	Immediate	All records are now up to date and are now regularly audited	Complete	A reminder was issued to co-ordinators, and follow-up testing showed monitoring records were up to date on the system in almost all cases sampled	Confirmed by Internal Audit
A11	Reminder to co-ordinators to challenge carers where records and procedures are not as expected	Immediate	Co-ordinators have been reminded of this. All issues raised by the audit have been addressed.		The evidence from follow-up testing confirms that gaps in records are being challenged and corrected.	Confirmed by Internal Audit
A12	No carers to be set up or be permitted to have informal financial management arrangements for service users	Immediate, however getting best interest decisions may be determining factor in this timescale.	This has been implemented with one exception which has been risk assessed due to the unusual circumstances		Action is progressing to transfer responsibility to NCC	Confirmed by Internal Audit
A13	Co-ordinators to review their case their loads to ensure no carers are acting as appointees for the people they support. Make referrals for best interest decisions where there are capacity issues.	Immediate, however getting best interest decisions may be determining factor in this timescale.	This has been implemented		The review has been undertaken	Confirmed by Internal Audit

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
<b>Department: Children, Families and Cultural Services</b>						
Service Area: Adolescence and Early Help Locality Services						
Audit: CFCS1602 School Swimming Service						
C1	Pricing to recover expected costs and provide for future investment through: move to trader account status; targetting price increases at schools requiring more staffing support; budgetary restraint	Trader account September 2015; notification in February 2016 of September price increases	The increase in charges to Schools in 16/17 and 17/18 accademic years were agreed. We are working with Finance to convert the service to a Trading account to allow limited reserves to be accrued in good years to balance unplanned expenditure in bad years (e.g. unexpected pool closure). All additional instruction to support children with additional needs are being paid for by the schools.	Testing scheduled for Q4 2016/17		Substantial progress
C2	Reduce overspending through: Bridging Clubs becoming self-funding or deleted; Group Manager scrutiny of spend; utilise Access to Work funding; renegotiate transport contracts; recharge pool providers for unplanned closures; review staffing structure	September 2015 onwards	A wide range of actions and initiatives are reported by management to implement budgetary restraint			Actions are ongoing
Service Area: Children's Social Care						
Audit: CFCS1608 Locality-based Client Accounts						
C3	Designated officer within the Department to take responsibility for the establishment and overview of locality based accounts	End of financial year 2015-16	On transfer to the Council's new bankers all Children's client accounts were closed. Where balances were held these were returned to the charities which they had been gifted by. A small amount remains which we are unable to return due to the charities no longer existing. This money will be donated to the Chairman's Charity when it is confirmed that there is no possibility of returning to any of the charities. From mid-September monies received from charities for use with particular Children and families will be administered through one account held by the Team Manager Business Support. This will be reconciled monthly by CFCS finance. Regular checks will be made to ensure the monies are used within a timeframe or returned to the charities. This new system and procedure will be reviewed in November.	Testing scheduled for Q4 2016/17		Implementation delayed
C4	A central departmental record of all client accounts should be maintained	End of financial year 2015-16				Implementation delayed
Service Area: Access to Resources						
Audit: CFCS1612 External Placements						

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
C5	Compliance with Council tendering regulations through use of the following hierarchy of options: 1 internal provision; 2 use of existing framework contracts; 3, issue contracts for specialist placements and invite the providers to join the existing frameworks	April 2016 (original); Sept 2016 (revised)	The first source of placements is via the East Midlands Regional Children's Framework (EMRCF) agreement and, if unsuccessful, other providers are approached. Work continues with legal services to have an agreed contract, which is compatible with contracts for the EMRCF. The service specification and schedules are currently being completed.	Complete	Follow-up testing confirmed that efforts are firstly made to place children with providers whose services have been procured through a compliant route, but some spot contracts continue to be used. The extent of spot contracting is reducing, and work is ongoing with the EMRCF to move current spot contractors onto the approved framework. Failing this, the input of the Council's Procurement Team will be requested to set up a local Dynamic Purchasing System for this area of service.	Implementation remains in progress
Service Area: Access to Resources Audit: CFCS1701 Clayfield Secure Unit follow-up						
C6	Monthly reconciliation of the imprest account	Already in place	The reconciliation is done on a monthly basis, however it is countersigned by the Support Services Manager as responsibility for the imprest system has been passed to the Business Support Officer since May 2016.	Complete	The imprest account records are fully reconciled with the bank statement each month.	Confirmed by Internal Audit
C7	Review and authorisation of imprest transactions by an independent person	Already in place	Continuing, however responsibility for the imprest account is done by the Business Support Officer and verified by the Support Services Manager.		Prior to input onto BMS the monthly imprest claim and reconciliation is reviewed and authorised by an independent person.	Confirmed by Internal Audit
C8	Checks to ensure posting are correct in the Business Management System	Already in place	Continuing, monthly journals are produced to amend any errors with regards to incorrect codes		Checks are in place to ensure expenditure is coded correctly within BMS.	Confirmed by Internal Audit
C9	Work towards reducing the imprest level through the use of Business Management System purchase orders and purchase cards	Already in place	The Business Support Officer is working to reduce petty cash and June's imprest reimbursement was just over £1400, which is much less than previous months. However, this will fluctuate depending on the number of Young People coming in and needing clothing urgently and given that units are working to a tight budget they are beginning to become very prudent.		The level of the imprest account has been reduced from £9,000 to £4,500.	Confirmed by Internal Audit
C10	Instruct staff not to make Paypal payments unless justifiable, in which case prior authorisation is obtained	Already in place	Only one paypal transaction has taken place and that was for two members of staff to attend a conference and paypal was the only option to pay.		Follow-up testing identified no further transactions of this nature.	Confirmed by Internal Audit
C11	Keep under review the list of suppliers able to supply goods or services through a Business Management System purchase order, to minimise use of the purchase card	Already in place	This is continuing and all efforts are made to use either existing vendors or to request new ones.		From reviewing the purchase card statements and discussion with staff, it was confirmed the Business Support Officer keeps under review the range of suppliers used through the purchase card, and BMS orders are used wherever possible.	Confirmed by Internal Audit



<b>Action Ref.</b>	<b>Action Description</b>	<b>Implementation date (original &amp; revisions)</b>	<b>Management Update</b>	<b>Internal Audit follow-up status</b>	<b>Internal Audit follow-up outcome</b>	<b>Action Status</b>
C12	Reminder to staff that purchase cards must only be used by the approved card holder	Already in place	The response to the recommendation confirms the agreed action has already been taken.		No evidence was identified at the follow-up that cards are being used by other members of staff.	Confirmed by Internal Audit
C13	System in place to show that all goods received are signed for	Already in place	This is continuing and working well.		Testing confirmed the budget request form is signed and dated when goods are received and the collection book is completed when staff collect goods from the reception area.	Confirmed by Internal Audit

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
<b>Department: Place</b>						
Service Area: Economic Development						
Audit: PPCS1601 Broadband						
P1	Discontinue the use of limit orders in favour of each supplier invoice being matched with a duly approved purchase order in the Business Management System	Already implemented	The response to the recommendation confirms the agreed action has already been taken.	Complete	Action is now being taken to close the limit orders.	Currently being actioned
Service Area: Catering & Facilities Management						
Audit: E&R1617 Catering (County Hall & Trent Bridge House)						
P2	Re-introduce checks of consolidated invoices on the basis of a 10% ratio.	This will be implemented at the onset of the 2016 financial year	Checks are made on consolidated invoices. These are then signed off and recorded. No discrepancies have been found. The checks are from September 16 onwards.	Testing scheduled for Q4 2016/17		Confirmed by management
P3	The recommendation advised further that:					
P4	- Each month, the three school P&L accounts with the highest cost per meal should be explained.					
P5	- food costs in the school P&L accounts should be agreed to BMS at the end of each school year.					
P6	Remind staff in the Catering team that delivery notes from the suppliers of groceries and fruit and vegetables should be signed as evidence of receipt of the goods.	Feb-16	A verbal instruction and a memo was issued to all staff. Delivery notes are checked and signed.			Confirmed by management

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
<b>Department: Cross-Cutting</b>						
Service Area: Agency Staff & Consultants						
Audit: XC1602						
XC1	a) Identify short-term placements that have extended into longer-term placements to ensure a Vacancy Control Document Record is completed.	As part of quarterly reporting from 31/3/16	A management update will be sought in Q1 of 2017/18	Scheduling to be determined in Q1 of 2016/17		
	b) Explore with the managed service provider the possibility of the online system differentiating between longer term placements requiring a VCDR and the more urgent short-term requirements. A manual process will be implemented if the adjustment cost is prohibitive.	Determine by August 16 whether a system adjustment of a manual system will be implemented.	A management update will be sought in Q4	Scheduling to be determined in Q4		
	c) Build into future tendering exercises for this service the requirement to differentiate between the nature of agency placements	For the end of the current contract in November 2017 or 1 year later if the option to extend is taken up	A management update will be sought in Q2 2016/17	Scheduling to be determined in Q2 of 2016/17		
XC2	Specific report from the service provider system to identify individual tenure information, to be used as part of the corporate monitoring process. An electronic pro-forma will be introduced to record the detail of the discussions between HR and managers to capture the ongoing reasons for the agency placement and the intended exit date. Where there are concerns about placement drift, these will be escalated to the responsible service director to mirror the approval process for VCDRs The 12 week period is significant for 2 reasons: it is when Agency Worker Regulations provide additional protections; this is the maximum period allowed for temp staff without VCDR approval. The additional protections will be brought to managers' attention so they are personally made aware and encouraged to consider whether agency is the most cost effective way of filling a temporary or permanent vacancy.	30/09/2016	A management update will be sought in Q4	Scheduling to be determined in Q4		
XC3	Corporate Directors will be reminded of the processes surrounding the engagement of consultants as set out in financial regulations.	End of December 2016	A management update will be sought in Q4	Scheduling to be determined in Q4		
Service Area: Information Governance						
Audit: XC1701						
XC4	a) The Information Asset register (IAR) has been compiled by the Information Asset Managers and is under review. The Information Manager will write to all Information Asset Owners to confirm that they have checked the entries in their areas and are satisfied that the register is substantially complete.	Dec-16	A management update will be sought in Q4	Scheduling to be determined in Q4		

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
	b) The Information Manager is reviewing all aspects of the IAR, including Business Impact Levels and security classifications	Dec-16	A management update will be sought in Q4	Scheduling to be determined in Q4		
	c) As part of the review of the IARs the Information Manager will liaise with the relevant IAM to review the BIL rating and with ICT to ensure all IARs with a BIL of 4 or higher is subject to a risk assessment (currently 92 assets).	Dec-16	A management update will be sought in Q4	Scheduling to be determined in Q4		
	d) Owners of information with a BIL of 4 and above will be identified during the review and made aware of the need for an annual review and will be asked to return a checklist signed by the IAO each year to confirm this has been done.	Apr-17	A management update will be sought in Q1 of 2017/18	Scheduling to be determined in Q1 of 2016/17		
	The work on confirming that the PSN Domain Administrators have had a vetting check has been completed	Completed	No update required - the response to the recommendation confirms implementation	Testing scheduled for Q1 of 2017/18		

## **REPORT OF THE SERVICE DIRECTOR FOR ENVIRONMENT, TRANSPORT AND PROPERTY**

### **Nottinghamshire County Council PFI Contracts**

#### **Purpose of the Report**

1. To inform the Committee of the current status and issues associated with the Councils Private Finance Initiative (PFI) Contracts for East Leake Schools, Bassetlaw Grouped Schools and Waste Management.

#### **Information and Advice**

##### **How do PFI Contracts work?**

2. PFI contracts are generally long term arrangements for the private sector to Design, Build, Finance and Operate (DBFO) assets which might not be affordable to the public sector in other circumstances due to the large capital costs involved in developing the contract facilities.
3. The basic principle of PFI is to ensure value for money is secured by ensuring that the risks and costs of a project are allocated to the people most able to manage them effectively through the lifetime of the scheme.
4. Hundreds of PFI contracts have been let across the UK to deliver new hospitals, prisons and other accommodation projects, roads, schools and waste facilities by various central and regional government bodies and the health sector with varying degrees of success, and not without public controversy.
5. The costs of the construction of the new or refurbished contract facilities are met by the private sector, and are either corporately (ie directly by the companies involved) or by project (bank) finance with the public sector meeting the ongoing cost of the operation and payback of the capital over an extended concession period, often 25 years plus. The assets then transfer back to the public sector at the end of the contract.
6. Most contracts are operated by Special Purpose Vehicles (SPV's) which are companies (with shareholders) specifically established to develop and operate the facilities comprising a number of specialist partners usually including construction contractors facilities management (FM) providers (for accommodation projects), funders, and other specialists companies experienced in specific areas of work (such as waste) or in pulling together all of the partners to provide a seamless service to the local authority.

7. Her Majesty's Treasury (HMT) through sponsoring departments (the Department for Education (DfE), and the Department for Environment, Food and Rural Affairs (DEFRA) in the case of Nottinghamshire) provide fixed (non-inflating) ring fenced grant payments, generically known as PFI credits, to the client organisations to offset some of the costs associated with this private sector finance based on the submission of a detailed business case to support the proposals. This leads to two anomalies;
  - i. No two projects receive the same level of PFI credit payments as they are not based on a fixed formula or calculation;
  - ii. There is an ever widening gap between the fixed level of funding through the PFI credits and the escalating (inflated using a suitable index such as Retail Price Index (RPI)) operational costs.
8. Councils normally therefore establish a "PFI reserve" at the start of a project to build up a sum of money (before the facilities are operational and the unitary charge payments commence or ramp up) to offset these costs through the life of the project, based on expected budgets, modelled costs and inflation assumptions assessed in an affordability model.
9. Unfortunately in some circumstances these assumptions can prove wrong, particularly in turbulent financial times as have affected the UK since 2007. A number of PFI projects are therefore currently proving to be unaffordable to the client organisations (particularly in the health sector).
10. The overall reserves held by the County Council to support the Nottinghamshire PFI projects are however currently deemed sufficient.
11. Contracts are usually output based, with significant freedom allowed to the contractors to meet the agreed specification within the confines of an agreed cost and quality envelope.
12. Various service elements such as hard and soft FM (building maintenance, catering, cleaning and grounds maintenance etc), waste treatment and Recycling Centre operation or additional waste disposal arrangements are subject to regular benchmarking (cost/quality comparison) or market testing (tendering) by the contractor to ensure they continue to offer value for money.
13. Payments to the contractors are made monthly through a "Unitary Charge" which covers all of the service elements provided, offset by any deductions made for performance failures or lack of availability. That way the contractors are incentivised to ensure services are provided effectively and any defects or service failures are rectified promptly.
14. Contracts are often referred to as self-monitoring as the contractor provides the performance data to support the payments requested each month, although a degree of oversight from the client is always required to ensure continued contract compliance.
15. Deductions can be for items as simple as failure to repair a leaking or broken tap or fix a loose tile or clean a floor correctly, to having a waste facility closed due to a major breakdown or not providing accurate billing or performance data. Obviously the timescales for rectification, or any financial penalties applied reflect the impact of the failure on the service provided to the Council and hence the schools and or the public.
16. Added complexity in some projects (mainly schools) comes from the multi layered client structure behind many of the public sector bodies commissioning the works and contracts

where multi use facilities are provided (such as leisure centres and schools under one contract) and the subsequent complications resulting from the programme of academy conversions in schools.

17. The major concerns in many PFI deals are the level of ongoing charges levied by the contractors leading to elevated “super profits” and affordability issues. “Gold Plating” where assets well above the standards required to operate effectively were procured during times when funding was plentiful and are now therefore unaffordable. And the perceived inflexibility of the contracts and therefore the assets and services provided, including the inability of the client authorities to renegotiate deals to remove any now unaffordable “Gold Plating”.
18. Additionally financial windfalls achieved by the providers from “refinancing” projects post construction when the majority of the risk has been removed and much more favourable financial terms can be achieved has allowed some providers in early projects to reduce the baseline costs without offering a corresponding financial benefit to the public sector clients.
19. Many of the issues noted above are significantly reduced or removed altogether in later deals concluded under Standardisation of PFI Contract (SoPC) terms, however poor perceptions of private finance deals still exist and few contracts are currently being procured under the latest Private Finance 2 (PF2) process despite it being much more robust for the client authorities.

### **Nottinghamshire County Council PFI Projects**

20. Members will be aware that the County Council is party to three PFI contracts for the provision of schools and leisure centres (on behalf of the relevant Borough and District Councils) in East Leake and Bassetlaw signed in 2002 and 2005 respectively, and waste management signed in 2006. All the contracts follow slightly different standard PFI contract formats as the PFI market developed significantly between the signing of the East Leake contract, and the Waste contract.
21. The County Council was also at one time also involved as a partner in the PFI Nottingham Express Transit (NET) line one tram project (the City Council hold the contract) although the Council subsequently withdrew from those arrangements.
22. Additionally the PFI funded “Building Schools for the Future” (BSF) project, through which the Council had proposed a number of further school renewals, was abandoned by the government in 2010 in response to the austerity conditions prevalent at the time.
23. Details of the contractors, coverage and values of the three live projects are included in Appendix 1.

### **Change Management within the Nottinghamshire Contracts**

24. Despite perceptions to the contrary well developed PFI contracts offer a significant degree of flexibility in the way services are provided, and can deliver adaptable services which can be changed to meet ongoing pressures and developing aspirations.
25. All three Nottinghamshire projects incorporate change mechanisms which allow for minor variations which do not require approval from the sponsoring departments. These mechanisms are used constantly to review what facilities are provided in schools and how the waste service operates, and have been utilised across the majority of the schools and

- leisure sites on a number of occasions to change layouts or add additional capacity, and recently to introduce the Recycling Centre Registration Scheme on the waste contract.
26. It is important however that where these minor variations are made the capital and lifecycle impacts are identified, and revenue streams secured to ensure the changes do not have a significant cumulative impact on budgets.
  27. In Nottinghamshire the academy rollout has left a complex legacy of contractual changes and recharging mechanisms to be managed since the PFI contracts cannot be novated to the individual schools or academy chains, and still have to be managed by the Council which is ultimately liable for making the contract payments.
  28. Therefore back to back arrangements have been put in place to ensure the Council recovers the agreed share of monies due to the contractors from the independent bodies now using many of the sites. This is further complicated by the number of multi-use sites resulting from the leisure provision in the original arrangements.
  29. As a result the day to day contract management, and particularly change management in the schools projects is a complex and time consuming task for the Council, schools, and the contractors alike.
  30. More significant variations are also possible subject to agreement between all the project partners, but do require a more detailed assessment of the impacts. Such variations are often very complex and require a detailed knowledge of the contracts, the services being delivered and more importantly a significant degree of technical and commercial knowledge and awareness in order to ensure changes do not adversely affect the risk and price profile of the project.
  31. Changes to a contract beyond the scope of the original procurement could also potentially open the Council up to the risk of a procurement challenge if the changes are significant enough for the variation to be deemed a new contract. Specialist technical, financial and legal advice is therefore usually sought for major variations, often from outside of the Council.
  32. A variation to the Bassetlaw schools contract is currently proposed to remove the very complex energy recharge formula by which the contract SPV, Transform Schools, recover energy costs from the individual sites from the contract and replace it with a straightforward requirement for the schools and leisure services to meet their own energy costs. This will enable sites to better manage their energy use, and also encourage more investment in energy efficiency technologies, as the site themselves will gain the direct benefit.
  33. The waste contract has previously been varied (in February 2014) using the existing Revised Project Plan (RPP) process included in the contract to change the residual waste treatment solution proposed in the original deal in response to the failure of Veolia Environmental Services (the SPV) to obtain planning permission for the major contract facility, an Energy Recover Facility (ERF) at the former Rufford Colliery in Rainworth.
  34. The RPP provided for the waste which was to be sent to the Rufford ERF by Bassetlaw District Council, and Newark and Sherwood District Council to be delivered to an existing Veolia ERF in Sheffield, and allowed the council to also renegotiate a number of other key contractual terms to deliver a significant financial benefit to the Council and even more flexibility going forward.



35. A further variation to deliver part two of the RPP, and construct a new Waste Transfer Station (WTS) in Kirkby in Ashfield, and conclude long term contracts for the treatment of the waste delivered to that site by Ashfield and Mansfield District Councils, is due to be concluded by the end of November 2016. This will also deliver a further financial saving to the Council.
36. Failure to develop the Rufford ERF has however led to DEFRA reassessing the level of PFI credits payable to the Council, reducing them by around 1/3<sup>rd</sup> since the capital spend on the project has also reduced. Overall affordability has still been improved as a result of the wider renegotiation with Veolia.

### **Current Contract Performance**

37. Both of the schools projects and the waste contract offer excellent levels of performance, with the school and leisure buildings designed and maintained to a high standard, and although attributable to a wide range of factors, a number of the schools using those buildings are now achieving significantly improving GCSE results year on year.
38. The waste contract is achieving unprecedented levels of customer satisfaction at the Recycling Centres, which also reach class leading recycling performance, and the contract as a whole is delivering significant landfill diversion performance for the Council.
39. Despite judicious application of the payment and performance mechanisms contract deductions on all projects have been minimal, indicating the diligence of the various contractors and quality of the facilities and services provided.

### **Current Factors Affecting the Projects**

40. Common issues affecting all of the PFI projects include the lack of suitably skilled and experienced staff able to manage the detailed operational and commercial issues behind the contracts and the complex interfaces between the partners involved. Resourcing to effectively manage the risk and cost of these (and other) major projects is a key issue for the County Council if it is to ensure that the contracts continue to offer value for money.
41. Economic fluctuations affect the level of inflation paid on contract rates, which can widen the affordability gap by increasing the difference between the fixed payments made by HMT and the monies paid to the contractors. Additionally in the waste arena the state of the economy is directly reflected in the growth of waste tonnages, increasing contract costs.
42. Although contractual disputes do not occur often they are often complex to resolve, and where they involve national government or local authority partners may have a significant political dimension. This is particularly true where shared use sites are utilised.
43. Effective management of school places is also another complex area where the County Councils role as local education authority is impacted by the academy programme, and where PFI schools which are now outside of the Council control and with largely fixed costs need to be utilised effectively if they are to provide a valuable community resource. It is essential that the PFI schools continue to be considered within the wider school place planning by the Council.
44. Going forward, ensuring robust contract management and appropriate financial planning is put in place to ensure the various arrangements remain affordable will be essential to their continued sustainability. Additionally facilitating a more direct relationship between the contractor and the schools, with effective use of communication channels to ensure issues

are logged and actioned by the contractor without any input from the County Council, will ensure the services operate efficiently.

45. It is worth noting that the Bassetlaw Schools soft FM services, which are currently provided by the County Council, are due to be benchmarked or market tested by the contractor shortly. The Catering and Facilities Management (C&FM) Group within the Place Department is very keen to retain these contracts and will be working closely with the PFI provider to hopefully achieve this. Appropriate safeguards will however be put in place to ensure that neither the Council's contract management function, nor the C&FM commercial team, are compromised during this process.

### **Contract Management Resources**

46. The schools and waste projects are valued at around £60m per annum, and are currently managed by the Group Manager, Waste and Energy Management within the Environment, Transport and Property Division of the Place Department.

47. The waste management team (including the non PFI element) is operated by a small group of specialist staff with strong project management and commercial skills, acting as the retained intelligent client function of the Waste Disposal Authority (WDA) for Nottinghamshire. This includes providing waste treatment and disposal arrangements, and strategy and policy guidance in respect to the management of Local Authority Collected Municipal Waste (LACMW) in the County. The PFI contract (and non PFI Contract) management is effectively undertaken by 3 FTE posts within an approved structure of 10 FTE posts, however the service is also currently carrying 2.6 FTE vacancies.

48. The schools PFI's have traditionally been managed by 2 FTE, currently located within the property structure, although one of those posts is presently vacant and the other post is also utilised preparing academy transfers, so resources are currently limited to around 0.5 FTE.

49. The Committee should note that the resource required to effectively manage PFI contracts across the Council is currently under review.

### **Other Options Considered**

50. None – this is an information report.

### **Reason/s for Recommendation/s**

51. Members of the Audit Committee will no doubt appreciate the high value and complex nature of the three PFI contracts currently operated by the County Council and in noting the contents of this report can be satisfied that, with appropriate staff and financial resource allocation, they will continue to deliver affordable and high quality school places and waste management services for the County Council until the end of their relevant contract terms.

### **Statutory and Policy Implications**

52. 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.

## **Financial Implications**

53. Although this report is for information only the three PFI contracts represent a significant financial commitment for the County Council and continue to offer a value for money mechanism for delivering the relevant services.

## **Legal Implications**

54. Although this report is for information only PFI contracts are complex contractual arrangements for the delivery and long term management of high value projects and as such are subject to significant scrutiny and oversight by the County Council, HMT, and sponsoring Government departments. Contracts have to be managed, and where appropriate varied, within tight guidelines and best practice standards, and therefore both schools contracts, and the waste contract, have been suitably supported by both internal and external legal advice.

## **Implications for Service Users**

55. Ensuring sufficient school places to meet the identified need remain an obligation of the County Council, and the East Leake and Bassetlaw PFI Schools projects help the authority meet these requirements either directly or through a cost effective delivery partnership with a range of facility providers and academy trusts.

56. The school facilities provided offer the students the best possible opportunities to learn in high quality, safe and sustainable environments.

57. The waste service is well liked by the public with high customer satisfaction scores, achieves high levels of landfill diversion, and all at a cost which puts the Council in the bottom quartile of all Waste Disposal Authorities in England.

58. Together the three contracts continue to provide a value for money solution to meet the requirements of the residents of Nottinghamshire.

## **Implications for Sustainability and the Environment**

59. The PFI Waste Contract has delivered significant investment into the County in order to help improve recycling performance and reduce reliance on the use of landfill for waste disposal.

## **Recommendation**

1. That Committee note the current status and issues associated with the Councils Private Finance Initiative (PFI) Contracts for East Leake Schools, Bassetlaw Grouped Schools and Waste Management.

**Jas Hundal**

**Service Director, Environment, Transport and Property**

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

**Mick Allen, Group Manager, Waste and Energy Management**

## **Constitutional Comments (KK 14/11/16)**

None the report is for noting only.

### **Financial Comments (RWK 14/11/2016)**

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

### **Background Papers and Published Documents**

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

None.

### **Electoral Divisions**

All

## **Appendix 1**

### **Nottinghamshire PFI Project Details**

#### **East Leake Schools**

1. The contract covers the construction and operation of three sites in the Rushcliffe area;
  - I. a new primary school, Lantern Lane (which is still within Local Authority control);
  - II. a secondary school (formerly Harry Carlton Comprehensive now known as East Leake Academy), and;
  - III. a community leisure facility operated on behalf of Rushcliffe Borough Council.
2. The Contract is currently operated by an SPV "East Leake Schools Ltd" with day to day management provide by Carillion FM who deal with the "Hard" Facilities Management (FM) such as building maintenance, and sub contract the "Soft" FM such as catering and landscape services back to the Catering, Cleaning and Landscapes (CCL) group within the Environment, Transport and Property (ETP) Division of the County Council.
3. The schools provide a total of 308 primary places and 1180 secondary places.

#### **Financial Matters**

4. Capital cost of the project was £19.6m at 2002 and covers not only the financing and construction of the buildings but also a 25 year concession for the provision of hard and soft facilities management services. The facilities will revert to the Councils at the end of the concession period.
5. Annual revenue costs across the whole project are around £3.07 million, £1.76m met by the DfE, £564,000 met by the school governor contributions, £496,000 from Rushcliffe Borough Council for the leisure provision, leaving a current annual payment from the County Council of £271,000.
6. This annual payment from the County Council covers the affordability gap between the payments received from the partners and the monies spent with the contractor.
7. The project currently has a financial reserve of £3.2m.

#### **Bassetlaw Schools**

8. The Bassetlaw Grouped Schools contract covers the construction and management of 10 sites in the Bassetlaw area comprising 5 Secondary Schools which are now all Academies;
  - I. Elizabethan Academy Retford;
  - II. Outwood Academy Portland Worksop;
  - III. Outwood Academy Valley Worksop;
  - IV. Retford Oaks Academy;

## **Appendix 1**

### **Nottinghamshire PFI Project Details**

- V. Tuxford Academy;
  - VI. St Giles Special School Retford (which remains with the Local Authority);
  - VII. Post 16 Centres In Worksop and Retford;
  - VIII. Two Leisure Centres in Retford and Worksop delivered on behalf of Bassetlaw District Council.
9. The contract is operated by a SPV “Transform Schools Ltd (Bassetlaw)” with hard FM undertaken by “Engie” and the soft FM services contracted back to the County Council through CCL.
10. The schools provide a total of 3062 secondary places in Worksop, 2513 secondary places in Retford and 1462 secondary places in Tuxford. The two post 16 centres currently have a total of 602 on roll, and St Giles have 135 students with Special Educational Needs (SEN) on roll and attracts pupils from right across the north of the county.

#### **Financial Matters**

11. The capital costs of the project was £150.9m at contract close in 2005, and covers not only the financing and construction of the buildings but also a 27 year concession for the provision of hard and soft facilities management services from opening, which occurred on programme in December 2007. The facilities will revert to the Councils at the end of the concession period.
12. Annual revenue costs across the whole project are around £19.6 million, with £10.5 million met by the DfE, £4.4 million met by the school Governor contributions, £850,000 from Bassetlaw District Council for the leisure provision, leaving a current annual payment from the County Council of £3.8 million.
13. This annual payment from the County Council covers the affordability gap between the payments received from the partners and the monies spent with the contractor.
14. The project currently has a financial reserve of £304,000.

#### **Waste Management**

15. The Nottinghamshire semi-integrated waste management contract covers the treatment and disposal of the majority of the municipal waste generated in Nottinghamshire through the County Councils role as Waste Disposal Authority (WDA) for Nottinghamshire.
16. This includes the funding, construction/renovation and operation of;
- I. 12 Recycling Centres
  - II. A Material Recovery Facility (MRF) at Mansfield to separate and consolidate all of the mixed recyclable waste collected by the seven borough and district councils in the County (known as Waste Collection Authorities - WCA),

## **Appendix 1**

### **Nottinghamshire PFI Project Details**

- III. A facility for the treatment of green garden waste collected at the kerbside and the Recycling Centres;
- IV. Waste Transfer Stations (WTS) as delivery points for the WCA;
- V. The haulage to and treatment of this WCA waste at a number of Energy Recovery Facilities (ERF) outside of the County.

The new facilities delivered through the contract will revert to the Council at the end of the contract period.

- 17. The Contract is operated by a SPV “Veolia Environmental Services” (VES) part of the French owned multinational Veolia. VES subcontract the majority of the Recycling Centre operations to individual site licensees and composting services to another Veolia subsidiary, but operate the MRF directly. Energy Recovery is provided through a range of subcontractors including “Veolia Sheffield” and Fomento de Construcciones y Contratas (FCC).
- 18. Members are no doubt aware that the contract originally included the funding and construction of a new ERF at the former Rufford Colliery at Rainworth to process 180,000 tonnes per annum of residual waste through incineration, which failed to gain planning permission after a protracted Public Inquiry process.
- 19. Following the rejection of the Rufford ERF planning in 2011 a number of consequential variations have now been made, or are planned to the 2006 contract including the incorporation of a long term sub contract for the treatment of residual waste collected in Mansfield and Ashfield and the construction of a new WTS in Kirkby in Ashfield to serve the two district councils which is due to be signed in November 2016. The WTS is due to be operational by 31 March 2017 for the start of the new sub contract on 1 April 2017.
- 20. The PFI Waste Contract currently handles around 340,000 tpa of waste and achieves nearly 80% recycling and composting at the Recycling Centres, and helps the County achieve around 43% recycling and composting on average, and has reduce reliance on landfill disposal in the County to less than 10%.

### **Financial Matters**

- 21. The Waste Contract had an original capital cost of £180m, and an overall value of £850m, and attracted PFI credits of £38m at contract close in 2006.
- 22. The failure to secure planning for the Rufford ERF has reduced the capital value substantially and led to a reassessment of the PFI credits payable to the authority by the Department for the Environment, Food, and Rural Affairs (DEFRA) and HMT. The details were covered in a report presented to Environment and Sustainability Committee on 30 January 2014.
- 23. The council currently receives a revenue payment of £1.6m per annum to support the contract, which will increase to around £2m per annum once the Welshcroft Close WTS is operational, subject to meeting a number of relevant criteria set by DEFRA.

## **Appendix 1**

### **Nottinghamshire PFI Project Details**

24. Contract Payments to Veolia amount to around £26m per annum, with further payments of around £6m pa to other contractors for waste services outside of the PFI arrangements (68,000 tpa of waste treatment through the Eastcroft Energy from Waste plant, and 100tpa of medical waste requiring specialist processing), plus payment of statutory Recycling Credits to the WCA.
25. The project currently has a financial reserve of £27.8m.



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

**INTERNAL AUDIT PROGRESS – APRIL 2016 TO SEPTEMBER 2016**

**Purpose of the Report**

1. To inform Members of the Head of Internal Audit's Progress Report on the work carried out by Internal Audit in first half of 2016/17, and to highlight any key issues arising.

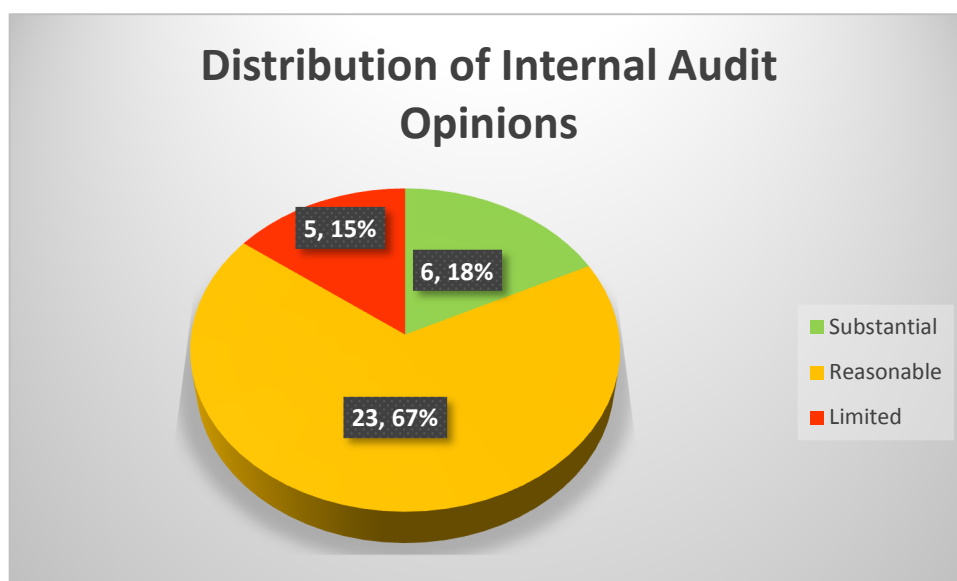
**Information and Advice**

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to:-
  - a) determine and monitor the achievement of the Authority's objectives
  - b) identify, assess and appropriately manage the risks to achieving the Authority's objectives
  - c) facilitate policy and decision making
  - d) ensure the economical, effective and efficient use of resources
  - e) ensure compliance with established policies, procedures, laws and regulations
  - f) safeguard the Authority's assets and interests
4. Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards. It is good practice to provide an interim progress report on Internal Audit work to senior management (Corporate Leadership Team) and the Board (Audit Committee) and this report satisfies this expectation.

***Summary of Internal Audit Work in the first half of 2016/17***

5. The graph in **Appendix 1** depicts achievements so far against the audit plan for 2016/17. Achievements are expressed in terms of the following:
  - Inputs – the number of audit days delivered against the plan
  - Outputs – the number of jobs completed against the plan

- Productivity indicator – the target score is 1, indicating that all jobs are completed on time and using the allocated number of days.
6. Productivity in the first half of 2016/17 was 0.88, indicating a good level of output for the days utilised. However, Appendix 1 shows that fewer days than planned were delivered and fewer jobs than planned were completed. A long-term sickness case was resolved at the end of the first quarter, but the Section was unsuccessful during the second quarter in recruiting to its vacancies at the Senior Auditor level. These two factors reduced the level of resource available in the first half of the year. Short- and medium-term actions are being taken to address this:
    - Temporary auditors will be recruited through the Council's agency contract in order to boost the resources available in the second half of the year
    - In the longer term, consideration is being given to the establishment of an apprenticeship post within the section, to work towards a recognised internal audit qualification.
  7. Within the days delivered in the first half of the year, a wide range of audit work was completed. **Appendix 2** sets out details of all final reports, draft reports and written advice, covering the following key types of Internal Audit input:
    - Assurance audits, for which an audit opinion is issued
    - Advice and consultancy – often relating to key developments and initiatives
    - Counter-fraud – including the investigation of suspected fraud and whistleblower reports
    - Certification audits – generally small jobs to sign off returns and accounts.
  8. Most of Internal Audit's assurance work results in the issue of an opinion on the financial controls and procedures in place, categorised as follows:
    - *Substantial Assurance* – there are no weaknesses or only minor weaknesses
    - *Reasonable Assurance* – most of the arrangements for financial management are effective, but some weaknesses have been identified
    - *Limited Assurance* – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified
  9. Analysis of the opinion-based assurance work shows the following distribution of opinions issued so far during 2016/17. Based on this, the Head of Internal Audit concludes that **a satisfactory level of internal control is in operation in the Council.**



10. The table below analyses the opinions given on the individual reports by department.

**Analysis of Audit Opinions to date in 2016/17**

Department	Opinion on Level of Assurance			Total
	Substantial	Reasonable	Limited	
Children Families and Cultural Services	-	-	2	2
Schools	2	20	2	24
Adult Social Care, Health and Public Protection	1	-	1	2
Resources	2	-	-	2
Place	-	2	-	2
Cross-cutting	1	1	-	2
<b>TOTALS</b>	<b>6</b>	<b>23</b>	<b>5</b>	<b>34</b>
Percentage	18%	67%	15%	

11. The work to date has identified some areas in which internal controls need to be strengthened, most notably in the five areas for which a ‘limited assurance’ opinion was issued. Details of these reports are presented in **Appendix 3**. Many of the weaknesses identified can be traced back to failures to comply with some aspect of the Council’s Financial Regulations, notably concerning the procurement of goods and services and the management of subsidiary bank accounts. The risk of failing to secure government funding is also highlighted in one area of service.

12. Internal Audit continues to provide advisory input to a number of key developments in the Council; these are identified in Appendix 2 as ‘Advisory and consultancy’ input to each department. This type of input ensures that timely advice is delivered by the Section while new and changed systems are being designed and implemented, and it helps to maintain the influence the Section has to retain a proper focus on control issues. Informal feedback from senior officers continues to indicate that this type of input is valued.

13. Internal Audit was involved with a limited number of irregularity investigations in the first half of the year. Brief details are given below::

- a) Youth Service South Locality – whistleblower concerns were received regarding value-for-money in the use of resources (rather than allegations of fraud). Concerns focused on the level of funds held in a locality bank account, and on the nature of some expenditure. Our investigation identified that the bank balance was higher than it should have been because recharges of expenditure processed initially through the Council’s main bank account were not up to date. We have raised a number of recommendations to improve controls in this area.
- b) Failure to report a nursing home resident’s death – a Health Service return in April 2016 picked up that a nursing home failed to report the death of a resident in 2012, resulting in the overpayment of the free nursing care element by approximately £20,000. Free nursing

care payments are made by the Council and subsequently recovered through recharges to the Health Service. Following visits to the home by departmental officers, and subsequent liaison with Internal Audit and Legal Services, it was determined that this error arose due to poor administrative processes at the home rather than fraudulent intent. The overpayment is being recovered against ongoing payments for continuing care of residents. Internal Audit is seeking an explanation from the National Fraud Initiative as to why this case was not identified through the data-matching exercise.

- c) Education transport service provider – we received an intelligence report from Nottinghamshire Police, alleging that the Council may have been defrauded by up to £60,000 by one of our education transport service providers. No details of the nature of the alleged fraud were provided. Our investigations showed that, whilst the Council spends significant sums with the named company for the provision of home to school transport, Special Educational Needs transport and Adults’ Learning Disability transport, the procedures for booking and paying for journeys with the company were found to be robust. We found no indication that fraud is being committed.

**Internal Audit Performance Indicators**

14. Progress against the Section’s performance indicators, as at the end of September 2016, is detailed in the following table:

**Internal Audit Performance Indicators to date in 2016/17**

Performance Measure/Criteria	Target	Outcome as at 30/9/16
<b>A. Outcome measures</b>		
<b>1. Risk-aware Council</b>		
Completion of Audit Plan - Days	90%	84%
- Jobs	90%	74%
Regular progress reports to:		
- Departmental Leadership Teams	3 pa	1 <sup>st</sup> round completed & part-way through 2 <sup>nd</sup>
- Corporate Leadership Team	3 pa	2 to date
- Audit Committee	2 pa	2 completed
Publication of periodic fraud/control awareness updates	2 pa	1 <sup>st</sup> issue to be compiled
<b>2. Influential Audit Section</b>		
Recommendations agreed	95%	99%
Engagement with the Transformation agenda	Active in 5 key projects	Currently engaged with 5
<b>3. Improved internal control &amp; VFM</b>		
Percentage of high, medium & VFM priority recommendations implemented	75%	89%
<b>4. Quality measures</b>		
Compliance with the Public Sector Internal Audit Standards	Compliance achieved	Substantial Compliance

Reliance placed on Internal Audit work	External Audit place reliance	No concerns raised at 15/16 audit
Positive customer feedback through Quality Control Questionnaire (QCQ) scores	Feedback good or excellent (where a score of 1 is excellent and a score of 2 is good)	Average score 1.70

15. Resourcing issues have continued to be the most significant challenge for the section during the year, as described above at paragraph 6. The permanent Head of Audit's career break has now been extended by a further six months, up to the end of June 2017. Temporary back-filling arrangements have also been extended, but this will mean a continuing vacancy in the ICT Technical Auditor post, to add to the unfilled vacancies at Senior Auditor level. Temporary resources are being engaged through the Council's agency service provider for the second half of the year, along with the placement of a CIPFA trainee with the section. Output levels from these temporary resources will be kept under review, along with opportunities to recruit resources on a more permanent basis.

16. Despite the challenges, the work completed continues to be carried out in compliance with the required standards, and clients continue to respond well to the recommendations made and to the audit approach.

**Conclusion**

17. The work undertaken by Internal Audit during the first half of 2016/17 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. Of the systems and procedures reviewed, 15% were found to provide limited assurance. Action plans have been agreed to address these concerns and follow-up audit work will be carried out to ensure that these areas are addressed.

**Other Options Considered**

18. The Audit Section is working to the Public Sector Internal Audit Standards during 2016/17. This report meets the requirement of the Standards to provide an interim Annual Report. No other option was considered.

**Reason/s for Recommendation/s**

19. To set out the Progress Report of the Head of Internal Audit for the first half of 2016/17.

**Statutory and Policy Implications**

20. The Local Government Act 1972 requires, in Section 151 that the Authority appoint an officer who is responsible for the proper administration of the Council's financial affairs. The Service

Director – Finance, Procurement and Improvement is the designated Section 151 officer within Nottinghamshire County Council. Section 6 of the Accounts and Audit Regulations 2011 requires Local Authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The County Council has delegated the responsibility to maintain an internal audit function for the Authority to the Service Director – Finance, Procurement and Improvement.

21. 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 Members note the Head of Internal Audit's Progress Report for the first half of 2016/17 and comment accordingly.

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

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

Rob Disney  
Head of Internal Audit

### **Constitutional Comments (14/11/2016)**

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

### **Financial Comments (RWK 14/11/2016)**

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

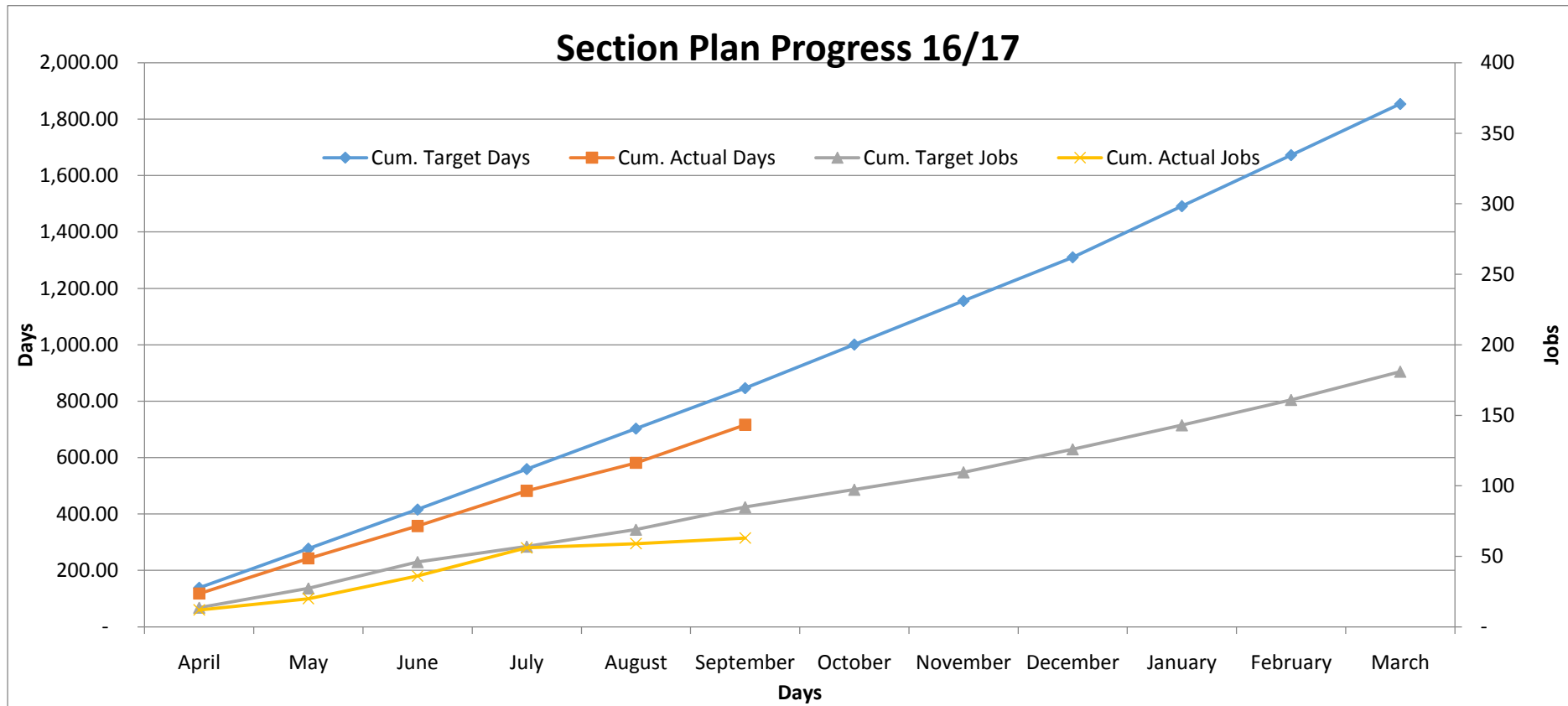
### **Background Papers.**

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:

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

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

All



**Productivity 0.88**





**INTERNAL AUDIT PLAN 2016/17**  
**Audit work completed 1 April 2016 to 30 September 2016**

<b><u>Audit Area</u></b>	<b><u>Opinion</u></b> (for assurance work only)	<b><u>Recommendations made &amp; priority rating</u></b>				<b><u>Recommendations agreed</u></b>			
		<b><u>H</u></b>	<b><u>M</u></b>	<b><u>L</u></b>	<b><u>VFM</u></b>	<b><u>H</u></b>	<b><u>M</u></b>	<b><u>L</u></b>	<b><u>VFM</u></b>
<b>ADULT SOCIAL CARE, HEALTH &amp; PUBLIC PROTECTION</b>									
<b><i>Assurance work</i></b>									
Residential Services: care & support for older adults – follow-up	Limited Progress	1	2	5	-	1	2	5	-
Better Care Fund: Pooled Budget	Substantial	-	-	-	-	-	-	-	-
<b><i>Advisory &amp; consultancy</i></b>									
Commissioning & reviewing packages of care									
Care Home remittance advices from Mosaic									
<b><i>Certification</i></b>									
Trading Standards: Scambusters audit certificate 2015/16									
Trading Standards: Operation Spinnaker audit certificate 2015/16									
Trading Standards: Operation Comfort audit certificate 2015/16									
<b>Sub-Total (excluding draft reports)</b>		1	2	5	-	1	2	5	-
<b>CHILDREN, FAMILIES &amp; CULTURAL SERVICES</b>									
<b><i>Assurance work</i></b>									
Clayfields Secure Unit – follow-up report & briefing note	Limited Progress	9	5	2	-	9	5	2	-
Troubled Families Programme	Limited	4	8	3	1	4	8	2	-
<b><i>Advisory &amp; consultancy</i></b>									
Youth Service locality funds – post investigation (in draft)		4	1	1	2				
<b><i>Counter-Fraud</i></b>									
Youth Service whistleblowing – budgets and locality funds									

<u>Audit Area</u>	<u>Opinion</u> (for assurance work only)	<u>Recommendations made &amp; priority rating</u>				<u>Recommendations agreed</u>			
		<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>	<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>
<b><i>Certification</i></b>									
Beeston Youth & Community Centre Trust accounts									
<b>Sub-Total (excluding draft reports)</b>		13	13	5	1	13	13	4	-
<b>SCHOOL AUDITS</b>									
<b><i>Assurance work</i></b>									
Secondary schools	1 Reasonable	1	3	1	-	1	3	1	-
Primary schools	2 Substantial	-	6	3	-	-	6	3	-
	19 Reasonable	12	104	14	-	12	104	14	-
	2 Limited	3	22	4	-	3	22	4	-
<b><i>Counter-Fraud</i></b>									
<b><i>Advisory &amp; consultancy</i></b>									
2 Audit Refresher training sessions for LA maintained schools – north and south areas									
<b>Sub-Total (excluding draft reports)</b>		16	135	22	-	16	135	22	-
<b>RESOURCES</b>									
<b><i>Assurance work</i></b>									
MASH ICT system	Substantial	-	2	-	-	-	2	-	-
Accounting Clearing House	Substantial	-	-	2	-	-	-	2	-
<b>Sub-Total (excluding draft reports)</b>		-	2	2	-	-	2	2	-
<b>PLACE</b>									
<b><i>Assurance work</i></b>									
County Supplies	Reasonable	-	2	2	-	-	2	2	-

<u>Audit Area</u>	<u>Opinion</u> (for assurance work only)	<u>Recommendations made &amp; priority rating</u>				<u>Recommendations agreed</u>			
		<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>	<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>
Parking Enforcement Management	Reasonable	-	2	1	-	-	2	1	-
<b>Advisory &amp; consultancy</b>									
Enviro Energy Ltd – turbine partnership with Nottingham City Council (in draft)									
Property Group Operations overtime (in draft)		-	1	-	-				
Highways ASDM – pre go-live advisory input									
Property ASDM – pre go-live advisory input									
Concessionary travel passes – document retention									
Schools catering – meals returns									
<b>Certification</b>									
Carbon Reduction Certificate									
Platt Lane Playing Fields accounts									
Bus Services Operators' Grant									
<b>Sub-Total (excluding draft reports)</b>		-	4	3	-	-	4	3	-
<b>COUNTY-WIDE REVIEWS</b>									
<b>Assurance work</b>									
Information Governance follow-up	Reasonable Progress	2	13	1	-	2	13	1	-
Follow-up of recommendations	To mitigate high & medium priority risks								
Annual Governance Statement	Substantial								
<b>Counter-Fraud</b>									
Transparency Code									
<b>Sub-Total (excluding draft reports)</b>		2	13	1	-	2	13	1	-
<b>Grand Total (excluding draft reports)</b>		32	169	38	1	32	169	37	-



**Audit Reports issued to date in 2016/17 which had a “Limited Assurance”  
Audit Opinion**

**ASCH 1705 – Residential Services care & support for older adults – follow-up – July 2016.** This follow-up review was carried out prior to the change in approach to the follow-up of audit recommendations. The key concern raised in the report is the rate of progress being made with bringing the contractual arrangements with health providers for intermediate care and assessment bed services into line with NCC Financial Regulations and Public Contracts Regulations 2015. The report recommends taking action now to set up a framework agreement for intermediate care to cater for the eventuality of funding becoming available beyond April 2017. Recommendations are also made regarding the authorisation of additional hours worked by staff and the lack of documentation to support some purchase cards transactions.

**CFCS 1701 – Clayfields Secure Unit – follow-up – June 2016.** This follow-up review was carried out prior to the change in approach to the follow-up of audit recommendations. It identified further lapses in controls over the Unit’s imprest account, which operates to a relatively high balance due to the need to process many of the young people’s allowances and pocket monies in cash. We also identified scope to limit further the use of the Unit’s purchase card, in favour of using the regular purchasing order processing facility in the Business Management System. Recommendations are also made to improve controls over cash handling and budgetary control.

**CFCS 1705 – Troubled Families Programme – October 2016.** Government funding of just over £5m over five years is anticipated for this programme, although this is dependent on the number of eligible families the Council is actively working and making progress with. The report highlights the slow progress being made with setting families up on the programme and, for some of the families that have been set up, concerns are raised that some of the established targets for sustained and significant progress may not be consistent with the agreed Outcomes Plan. All of this may place at risk the level of funding the Council will receive

**School Budget Share audits.** So far during the year, there were two schools where a limited assurance audit opinion was provided. The audits of school budget share cover a broad range of areas including governance, expenditure, income, assets and information. Reports are provided to the Headteacher and the Chair of Governors for action.

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**Further details of ‘Limited Assurance’ Audit Opinions at draft stage in the previous progress report (June 2016)**

**XC 1602 - Agency staff and consultants – September 2016.** Approval of new agency worker engagements and of extensions to existing engagements should

be evidenced on Vacancy Control Decision Records (VCDRs). Our testing identified a low level of compliance with these requirements. There is an opportunity to make use of the reporting capabilities of the managed service provider's system as a basis for improvement. Evidence to demonstrate compliance with the council's procurement regulations was not available in the case of some consultancy engagements.

**CFCS 1612 – External Placements – May 2016.** The key issue in this report was that non-framework providers were not procured in accordance with Financial Regulations, and not subject to a legal agreement. Recommendations were also raised regarding the authorisation of individual placement agreements and subsequent checking of charges against those agreements.



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

**EXTERNAL AUDIT – ANNUAL AUDIT LETTER 2015/16 AND PROGRESS REPORT**

**Purpose of the Report**

1. To inform Members of the External Auditors' Annual Audit Letter 2015-16.
2. For Members to note the External Auditors' Progress Report and Technical Update.

**Information and Advice**

3. The attached annual audit letter from KPMG summarises findings from work carried out by the external auditors over the last financial year (2015/16).
4. All Councils are subject to independent external review with the final conclusions and recommendations being presented to the Council in the Annual Audit Letter (AAL). The AAL provides a clear, readily understandable commentary on the results of the auditor's work and highlights any issues that the auditor wishes to draw to the attention of the public.
5. The report is presented to Members for their information. The Audit Director (KPMG), Tony Crawley will be in attendance at the meeting to introduce the report and respond to Members' queries.
6. The attached progress report and technical update provides an overview of the progress made by the external auditors with regard to delivering their responsibilities. It also highlights the main technical issues that are impacting upon local government including the postponement of implementing changes to Highways Network Asset accounting. Again, the Audit Director (KPMG) will be in attendance to respond to Members' queries.

**Reason/s for Recommendation/s**

7. To provide information to Members on the External Auditors' Annual Audit Letter 2015/16.

**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 of the Audit Committee note the External Auditors' Annual Audit Letter 2015/16.
- 2) That Members of the Audit Committee note the External Auditors' Progress Report and Technical Update.

**Nigel Stevenson**

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

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

Nigel Stevenson tel. 0115-9773033

### **Constitutional Comments**

9. This report is for noting only.

### **Financial Comments (GB 10/11/2016)**

10. The total audit fees were £98,213 for Nottinghamshire County Council and £29,926 for the Nottinghamshire Pension Fund.

### **Background Papers and Published Documents**

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

- None

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

- All





# Annual Audit Letter 2015/16

**Nottinghamshire County Council and  
Nottinghamshire Pension Fund**

—  
October 2016



# Contents

The contacts at KPMG in connection with this report are:

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## Report sections

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2. Audit fees 6

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.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 ([andrew.sayers@kpmg.co.uk](mailto: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](mailto: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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**This Annual Audit Letter summarises the outcome from our audit work at Nottinghamshire County Council and Nottinghamshire Pension Fund in relation to their 2016/16 audit year.**

**Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.**

<b>VFM conclusion</b>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 28 September 2016. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties.</p> <p>In reaching our VFM conclusion we have considered the Authority's arrangements for securing financial resilience. We considered the robustness of the Medium Term Financial Strategy 2016/17 – 2019/20, by reviewing the Authority's assumptions made around changes to future funding streams and the identification of future expenditure pressures.</p> <p>Our work concluded that the planning assumptions made by the Authority were reasonable, and officers recognise that there are significant uncertainties about the future of local government financing. We reviewed the 2016/17 budget setting process and noted that for the budget set for the financial year and additional future saving of £50.2m would be required over the next three years.</p> <p>We are satisfied that the Authority has suitable arrangements in place to monitor and ensure delivery of the savings plans. We are aware of the progress being made to address the shortfall by 2019/20 identified in the February 2016 budget statement, and it is important that members and officers continue to work together to address the gap.</p>
<b>VFM risk areas</b>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> <li>— Future Savings Plans; and</li> <li>— Working with Partners – Better Care Fund.</li> </ul> <p>We assessed the arrangements put in place by the Authority during the year by discussions with Officers and by relying on our accounts audit work where relevant, underpinned by a review of the Authority's financial management processes.</p> <p>We were able to conclude that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>
<b>Audit opinion</b>	<p>We issued an unqualified opinion on the Authority's financial statements on 28 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.</p>

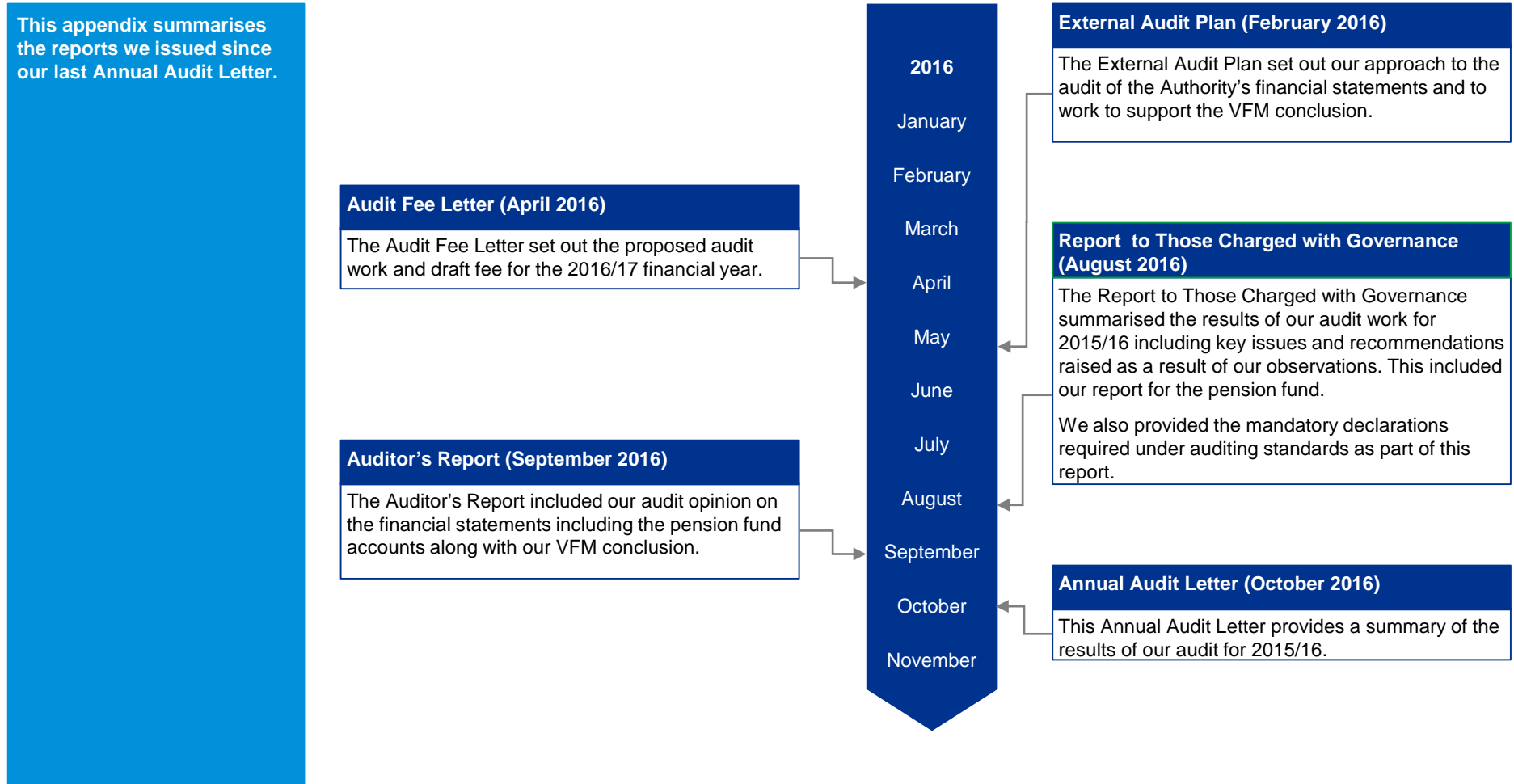
## Section one

# Headlines (continued)

All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

<b>Financial statements audit</b>	<p>We received complete draft accounts by 8 June 2016 ahead of the Department for Communities and Local Government deadline. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process was completed within the planned timescales.</p> <p>There were no uncorrected audit adjustments at the end of the audit process.</p>
<b>Annual Governance Statement</b>	<p>We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding.</p>
<b>Pension fund audit</b>	<p>There were no significant issues arising from our audit of the pension fund, and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.</p>
<b>Whole of Government Accounts</b>	<p>We have reviewed the consolidation pack that the Authority prepared to support the production of the Whole of Government Accounts by HM Treasury. We completed this on 21 October 2016.</p>
<b>Certificate</b>	<p>As we are in the process of considering an objection to the accounts that has been received from a local elector, this will delay us issuing our audit certificate until this matter has been given due attention.</p>
<b>Audit fee</b>	<p>Our fee for 2015/16 was £98,213 excluding VAT for the Authority accounts and £29,926 excluding VAT for the Pension Fund accounts. This is in accordance with our planned fee, and further detail is contained in Appendix 2.</p>

# Appendix 1: Summary of reports issued



# Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

### External audit

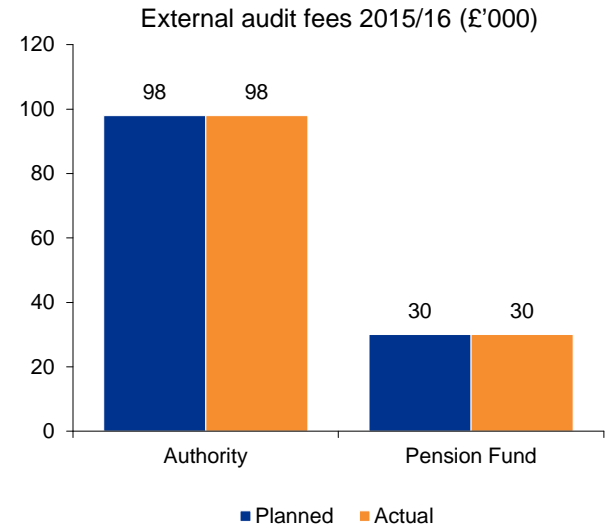
Our final fees for the 2015/16 audits were:

- Nottinghamshire County Council accounts £98,213; and
- Nottinghamshire Pension Fund £29,926.

Both of these are in line with the planned fees.

### Other services

We charged £3,000 for additional audit-related services for the certification of the Teachers Pension return, which is outside of the Public Sector Audit Appointment's certification regime.







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# External Audit Progress Report

Nottinghamshire County Council and Nottinghamshire Pension Fund  
November 2016

# Contents

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in connection with this  
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**External audit progress report**

**Technical developments**

**Appendix**

1. 2015/16 audit deliverables

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This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.


The report also highlights the main technical issues which are currently having an impact in local government.


If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact

 Medium impact

 Low impact

 For information



# External audit progress

# External audit progress report

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
<b>Financial statements</b>	<p>Since the Audit Committee meeting on 7 September 2016 we have:</p> <ul style="list-style-type: none"> <li>• Issued an unqualified opinion on your 2015/16 accounts on 28 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year;</li> <li>• Produced our 2015/16 Annual Audit Letter as required by the National Audit Office’s Code of Audit Practice. The purpose of preparing and issuing the Annual Audit Letters is to communicate to external stakeholders, including members of the public, the key issues arising from auditors’ work. This information will be published on the PSAA website and is attached as a separate paper for the Committee’s information. We encourage you to publish this information on the Authority’s website; and</li> <li>• Commenced our planning work for the 2016/17 audit. We met the s151 officer on 10 November 2016 to to understand the current issues and priorities facing the Authority.</li> </ul>
<b>Value for Money</b>	<p>Also on 28 September 2016 we issued a unqualified conclusion on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016</p>
<b>Whole of Government Accounts</b>	<p>We completed our review of the Whole of Government Accounts and issued an unqualified opinion to the National Audit Office on 21 October 2016.</p>
<b>Audit Certificate</b>	<p>As reported to the Audit Committee in September, an objection to the accounts has been received from a local elector. This will delay us issuing our audit certificate until this matter has been concluded.</p>
<b>Certification of claims and returns</b>	<p>We also undertake the certification of the Teachers Pensions Return. Subject to matters arising from our certification work which is still in progress, we plan to conclude on the work by the deadline of 30 November 2016.</p>



# Technical developments

# Highways Network Assets

Level of impact: ● (High)	Management perspective
<p>Following a meeting on Wednesday 9 November, the CIPFA/LASAAC Local Authority Accounting Code Board has issued an important update on the measurement of the highways network asset.</p> <p>It has been decided to postpone the full implementation of the move to measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements, which had been planned to happen in 2016/17.</p> <p>The proposed delay is primarily due to the cost rates which were originally developed at the start of the project and now over five years old. For the last eighteen months CIPFA has been working with the relevant stakeholders, including the Department for Transport, to ensure that the review of the central rates for the measurement of the Highways Network Asset would be ready for the 2016/17 implementation date.</p> <p>New rates are critical to implementation given the time frame since the last rates were produced. Unfortunately, despite best efforts, it has become clear that these rates will not be ready in good time for the 2016/17 financial statements.</p> <p>CIPFA/LASAAC will review this position in March 2017, with a view to implementing this in 2017/18.</p>	<p><i>A report setting out the new Highways Network Asset accounting requirements was presented to Nottinghamshire County Council's Audit Committee in March 2016. In anticipation of the 2016/17 implementation date, a significant effort has been made to ensure the Authority is able to fully implement the requirements in accordance with published timescales. Finance and Highways staff will use the additional time to further refine the quality and completeness of asset data prior to the revised implementation date.</i></p>

# NAO Report on Capital Expenditure and Resourcing

Level of impact: ● (Low)	Management perspective
<p>Committee members may wish to be aware that the National Audit Office has published its report <i>Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing</i>. This report found that local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.</p> <p>The report can be accessed via the NAO website at <a href="http://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/">www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/</a></p>	<p><i>The Local Authority's capital expenditure and resourcing as well as associated prudential indicators are reported to Full Council annually as part of the Budget Report.</i></p>

# PSAA's Value For Money Tool

Level of impact: ● (Low)	Management perspective
<p>The PSAA's Value for Money Profiles tool (VFM Profiles) was updated on 1 July 2016.</p> <p>The VFM profiles have been updated with the latest available data. The adult social care section has been re-designed based on the new adult social care financial return (ASC-FR). Data is available from 2014/15 onwards with no comparable data from earlier years. The children and young people section has also been updated with 2014/15 data.</p> <p>The VFM profiles have also been updated with the latest available data from the following sources:</p> <ul style="list-style-type: none"> <li>— Adult Social Care Financial Return (new data collection) (2014/15)</li> <li>— Referrals, assessments and packages of care for adults (RAP) (2014/15)</li> <li>— Pupil numbers (2015)</li> <li>— Provision for Children Under Five Years of Age in England (2015)</li> <li>— Children in Care and Adoption Performance Tables (2014/15)</li> <li>— Key Stage 2 Attainment (2014/15)</li> <li>— GCSE and Equivalent Attainment by Pupil Characteristics in England (2014/15)</li> <li>— Section 251 outturn data - Table A1 Children and young people services (2014/15)</li> <li>— Section 251 outturn data - Table A Education budget (2014/15)</li> <li>— Special Educational Needs in England (2014/15)</li> <li>— Attainment by Age 19 (2014/15)</li> <li>— Participation in Education, Training and Employment by 16-18 Year Olds in England (2015)</li> <li>— Pupil Absence in Schools (2014/15)</li> <li>— National road maintenance condition survey (2014/15)</li> </ul>	<p><i>The Local Authority uses VfM tools to benchmark costs, performance and activity against other similar organisations.</i></p>



# PSAA's Value For Money Tool (cont.)

Level of impact: ● (Low)	Management perspective
<ul style="list-style-type: none"> <li>— Proportion of bus services running on time (2014/15)</li> <li>— Annual Population Survey (2015)</li> <li>— Finance and General Statistics (2014/15)</li> <li>— Revenue Collection (2014/15)</li> <li>— Claimant count (2016)</li> <li>— Affordable housing supply (2014-15)</li> <li>— Active people survey (2014/15)</li> <li>— Public Health Outcomes Framework (2014/15)</li> <li>— Conception Statistics, England and Wales (2014)</li> <li>— First time entrants into the Youth Justice system (2014/15)</li> </ul> <p>The Value For Money Profiles can be accessed via the PSAA website at <a href="http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing">http://vfm.psaa.co.uk/nativeviewer.aspx?Report=/profiles/VFM_Landing</a></p>	

# Government contracting

Level of impact: ● (For Information)

The NAO has recently published an overview of its work on the government's management of contracting which Committee members may wish to be aware of, particularly in relation to value for money arrangements.

The publication examines subjects including the government's commercial capability, accountability and transparency, and its management of contracted-out service delivery. It finds that government now spends about £225 billion a year with private and voluntary providers. The role of providers in the public sector has evolved from relatively simple contracts to provide goods or established services, to innovative high profile commissioning arrangements in sensitive public service areas such as health and justice

The overview is available from the NAO website at [www.nao.org.uk/report/government-commercial-and-contracting-an-overview-of-the-naos-work/](http://www.nao.org.uk/report/government-commercial-and-contracting-an-overview-of-the-naos-work/)



# Appendix

## Appendix 1

# 2015/16 audit deliverables

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2015	Issued
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	Issued
<b>Substantive procedures</b>			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	Issued
<b>Completion</b>			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	Issued
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	October 2016	Issued
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	October 2016	Issued



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**REPORT OF CORPORATE DIRECTOR, RESOURCES  
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, Resources**

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

### **Constitutional Comments (HD)**

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

### **Financial Comments (NS)**

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

### **Background Papers and Published Documents**

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

- None

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

- All



## AUDIT COMMITTEE - WORK PROGRAMME

<u>Report Title</u>	<u>Brief summary of agenda item</u>	<u>For Decision or Information</u>	<u>Lead Officer</u>	<u>Report Author</u>
<b>8 March 2017</b>				
Statement of Accounts 2016/17 – Accounting Policies	To outline proposed changes to the accounting policies used for the Authority’s Statement of Accounts for 2016/17 for review and approval	Decision	Nigel Stevenson	Glen Bicknell
Internal Audit Plan for 2017/18	Report from the Head of Internal Audit providing details of the planned work for 2017/18	Information	Rob Disney	Rob Disney
External Audit Plan 2016/17	To provide information on the External Auditors’ Audit Plan for their 2016/17 Audit.	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Certification of Grants and Returns 2015/16	To provide information on the External Auditors’ Annual Report 2015/16 on the certification of Grants and Returns	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Transport Infrastructure Assets Project	To provide Information on the project to add Transport Infrastructure Assets to the account from 2016/17	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Follow up of Internal Audit Recommendations	To provide information on the Internal Audit’s high priority recommendations	Information	Rob Disney	Rob Disney
<b>14 June 2017</b>				
Annual External Audit Fees	To inform Members of proposed external audit fees for 2017/18	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Mandatory Inquiries	To provide information on the External Auditors’ requirement for the provision of information regarding the Council’s approach to dealing with fraud, litigation, laws and regulations as part of their audit.	Decision	Nigel Stevenson	Nigel Stevenson
Internal Audit Report 2016/17	Report of the Head of Internal Audit providing an			

<u>Report Title</u>	<u>Brief summary of agenda item</u>	<u>For Decision or Information</u>	<u>Lead Officer</u>	<u>Report Author</u>
	internal audit opinion on the Authority's level of internal control during 2016/17	Information	Rob Disney	Rob Disney
Financial Regulations Waivers 2016/17	Inform Members of any breaches 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	Rob Disney	Rob Disney
Annual Fraud Report 2016/17	Inform Members of any detected fraud issues	Information	Rob Disney	Rob Disney
Follow up of Internal Audit Recommendations	To provide information on the Internal Audit's high priority recommendations	Information	Rob Disney	Rob Disney
Function of the Audit Committee	Information given to Members to help them understand the Audit process	Information	Rob Disney	Rob Disney
<b>? September 2017</b>				
External Audit Annual Governance Reports	To receive for information, and comment, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Follow up of Internal Audit Recommendations	To provide information on the Internal Audit's high priority recommendations	Information	John Bailey	John Bailey
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey

<b>? December 2017</b>				
Internal Audit Progress report for 2016/17	To provide details of internal audit work completed to the end of September 2017	Information	John Bailey	John Bailey
External Audit – Annual Audit Letter 2016/17	KPMG summarises the findings from work carried out by the external auditors over the last financial year (2016/17)	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Follow up of Internal Audit Recommendations	To provide information on the Internal Audit's high priority recommendations	Information	John Bailey	John Bailey
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey

