Nottinghamshire County Council

Audit Committee

Wednesday, 08 March 2017 at 10:30

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

AGENDA

1	Minutes of the last meeting held on 7 December 16	3 - 6
2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
4	Cyber Security Update	7 - 12
5	Follow-Up of Internal Audit Recommendations	13 - 24
6	Certification of Grants and Returns 2015-16	25 - 26
7	Statement of Accounts 2016-17 – Accounting Policies	27 - 46
8	Internal Audit Plan 2017-18	47 - 84
9	KPMG - External Audit Plan 2016-17	85 - 104
10	Work Programme	105 - 110

<u>Notes</u>

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

(2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

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

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

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

(5) This agenda and its associated reports are available to view online via an online calendar - http://www.nottinghamshire.gov.uk/dms/Meetings.aspx

Nottinghamshire County Council

minutes

Meeting	AUDIT COMMITTEE
Date	7 December 2016 (commencing at 10.30 am)

membership
Persons absent are marked with `A'

COUNCILLORS

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

	Reg Adair		David Kirkham
	John Clarke	A	Ken Rigby
A	Tom Hollis		John Wilmott
	John Handley		

ALSO IN ATTENDANCE

Tony Crawley	KPMG LLP

OFFICERS IN ATTENDANCE

Sarah Ashton	)	
Rob Disney	)	Resources
Glen Bicknell	)	
Nigel Stevenson	)	
Shelagh Mitchell		Children, Families and Cultural Services
Mick Allen		Place

MINUTES OF THE LAST MEETING HELD ON 7 SEPTEMBER 2016

The minutes of the last meeting of the Committee held on 7 September 2016, having been circulated, were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Tom Hollis (other) and Councillor Ken Rigby (other).

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

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. Shelagh Mitchell (Group Manager, Access to Resources, Children's Social Care) explained the progress the department were making with regards to external placements

RESOLVED 2016/024

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.

NOTTINGHAMSHIRE COUNTY COUNCIL PFI CONTRACTS

Mick Allen (Group Manager, Waste and Energy Management) gave a presentation updating the Committee of the current status and issues associated with the Council's Private Finance Initiative (PFI) contracts as outlined in the report and appendix.

RESOLVED 2016/025

That the current status and issues associated with the Council's PFI contracts for East Leake Schools, Bassetlaw Grouped Schools and Waste Management be noted.

INTERNAL AUDIT PROGRESS – APRIL 2016 TO SEPTEMBER 2016

Rob Disney (Head of Internal Audit) explained the work carried out by internal audit in the first half of 2016/17 and highlighted any issues.

RESOLVED 2016/026

That the Internal Audit's Progress report for the first half of 2016/17 be noted.

EXTERNAL AUDIT – ANNUAL AUDIT LETTERS 2015/16 AND PROGRESS REPORT

Glen Bicknell (Senior Accountant) and Tony Crawley (KPMG's Audit Director) introduced the report which informed members of the External Auditors' Annual Audit letter 2015/16 and the progress report and technical updates.

RESOLVED 2016/027

1) That the External Auditors' Annual Audit letter 2015/16 be noted.

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

WORK PROGRAMME

RESOLVED: 2016/028

That the work programme be noted.

The meeting closed at 11.31 am

CHAIRMAN

Nottinghamshire County Council

Report to Audit Committee

8 March 2017

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR, ICT

CYBER SECURITY UPDATE

Purpose of the Report

1. To provide the Audit Committee with an update on the approach taken to mitigating and managing cyber-attacks.

Information and Advice

Background

2. The County Council operates a large and complex technology estate that supports users to access more than 600 applications over cabled, wireless, 3G and 4G networks. More than 11,000 devices (desktops, laptops, tablets and smartphones) connect via these networks and services are available to front-line services every day of the year. Many users are provided with technology to work flexibly from their home, in transit or with customers and many would become unproductive very quickly without these services. The corporate ICT network also delivers the printing and telephony services for most users. The public also increasingly access and transact a wide range of County Council services online. ICT Services therefore deploys a considerable infrastructure across two data centres to manage the technology estate and provide a measure of business continuity.

3. The availability of ICT solutions and the security of information is therefore an essential component in facilitating efficient and effective day to day service delivery. The County Council collects, processes and stores huge volumes of data electronically. This data can be stored in various locations such as in e-mails, on file servers, on devices and in back-up systems. Increased partnership working requires a lot of personal and sensitive information to also be made available across organisational boundaries. All of this requires robust security practices to protect the Council, its staff, customers and partners from an ever changing range of ICT security threats.

4. Balancing security with service delivery is a complex task. Whilst security of information and services is critical, the level of security should not be so intrusive as to disrupt services. The 3 key principles of information security are confidentiality, integrity and availability:

    - **Confidentiality:** Ensures that information can only be accessed by people authorised to do so. This is the principle of information security that is most at risk and most likely to incur the most damage to reputation and financial penalty.

- **Integrity:** Ensures that data is accurate and unchanged from the intended source state.
- **Availability:** Ensures that the information is readily accessible to all authorised viewers, at all times.

5. ICT Services therefore deploys a range of security measures to support information security and provide for digital and physical asset protection. The approach is to focus on 3 key areas:
    - Security policies, guidance and governance arrangements
    - Security infrastructure and asset protection
    - Security monitoring

Security policies, guidance and governance arrangements

6. A range of ICT policies and guidance is made available to users so that they maximise the benefits from using technology whilst minimising the risks. Policy and guidance is comprehensive and includes the safe use of the web and e-mail, adopting complex passwords, appropriate use of mobile devices and removable media, top security tips and protecting confidential information. Policy and guidance is published on the intranet and is regularly updated and communicated to users.

7. ICT Services has many ongoing technology projects and programmes that update current software and hardware solutions and introduce new ones. The security of information and devices is considered at the design stage of all of these solutions by specialist Technical Architects and is scrutinised by governance boards prior to being introduced into the live environment.

Security infrastructure and asset protection

8. A constantly evolving threat landscape requires a multi-levelled defence strategy. With increased reliance on internet communications and connectivity, the County Council cannot rely on internal defences alone and so operates a "defence in depth" security model which offers significant protection from a multitude of cyber-attack vectors. It is the combination and interactivity of a range of products that maximise protection from internet borne threats, a brief outline of which is provided below:

    i. **E-mail filtering:** The filter inspects all incoming e-mail from external sources with the aim of delivering only clean e-mail from legitimate sources, and blocking suspicious or unsolicited messages. This includes SPAM (unsolicited junk e-mail) and phishing (fraudulent e-mails purporting to be from reputable sources) threats. The filter is a good example of a complex service/security balance as a strict filtering policy may block legitimate e-mail, and a lax policy will allow high volumes of unwanted mail.

    ii. **Device protection:** Sophos software is configured and deployed to ensure maximum protection for user devices with features including anti-virus, anti-malware, applications control and web protection. Currently all user hardware receives a full "scheduled" anti-virus scan twice a day and receive "on access" file scans throughout the working day. As an indication of the effectiveness of Sophos software, 1,497 viruses were blocked and cleaned from a single USB device connected to our ICT network last year. Mobile devices are configured for security and encryption in line with National Cyber Security Centre best practice guidance.

iii. **Firewall:** The firewall solution is configured to control all inbound traffic to the ICT network and blocks unprompted executable file downloads, provides an additional layer of anti-virus protection, manages the internet access through web filtering policies, controls files access, highlights network risks and provides information regarding potential threats.

iv. **Enhanced firewall protection:** A solution (Palo Alto Wildfire) is used to provide an enhanced level of network security by providing real time analysis of network activity and file access, and offers significant protection from zero day threats (a software vulnerability for which there is no current fix) with protection provided within 15 minutes of an international discovery of a new variant. The intrusion detection and prevention features of this solution enable the blocking of attempted network attacks.

v. **Data sharing solutions:** The County Council uses a range of secure solutions for secure e-mail (GoPortal) and file sharing with partners (Office 365, Cryptshare).

vi. **Data backups:** The usual recovery from a successful cyber-attack is to restore data from backups. A regular routine is used for the backup of all data and much of this is held across two data centres.

vii. **Remote access:** there are a number of ways that users can currently access applications and information when away from the base using their own or County Council devices. In order to provide enhanced levels of security, and better value for money, these are being rationalised so that only County Council devices are used (laptops, tablets and smartphones) alongside our secure remote access solution (*Cisco VPN*) with legacy solutions being withdrawn (*OLVI, GetConnected* and *ADSL homeworking*).

Security monitoring

9. As part of its role in managing and monitoring the ICT estate, ICT Services uses software to identify application and operating system vulnerabilities and to highlight missing security updates, patches and legacy software installations. Remote updates can then be deployed to fix these security vulnerabilities.

10. The County Council has a secure broadband connection into the Public Service Network (PSN) that enables users to send and receive sensitive and confidential data between other public sector organisations. To connect into this secure network there is an annual independent compliance audit and assessment as to the integrity and security of the County Council's ICT network and infrastructure. This exercise not only ensures that the ICT network complies with current security standards but also identifies any low and medium level risks that need to be addressed.

11. The ICT Security Team (there are 3 security specialists) manage an e-mail account for users to report SPAM and suspicious messages. This has proved extremely useful in identifying zero day attacks as we can liaise with our providers (Sophos and Palo Alto) to provide

network protection within as little as 15 minutes, and receive a solution to remove any infection within hours.

Ongoing risks

12. The largest perceived threat of a cyber-attack on County Council services is currently via the internet and e-mail service. Whilst there is a high level of protection and multiple platforms to mitigate the risk of infection once a threat has been delivered, it is the point of entry and user behaviour that is the biggest risk.

13. The specific cyber-attack most prevalent through e-mail currently is *Ransomware*. This is a threat with the purpose of holding businesses to ransom by maliciously encrypting their data and charging a fee to allow access to the information. A typical *Ransomware* attack will initiate via an e-mail with an infected attachment. The e-mail will be worded to social engineer the recipient to open the attachment e.g. “please find attached an invoice that is overdue for payment”. Opening the attachment will execute the attack. Lincolnshire County Council were subjected to a successful *Ransomware* attack in 2016 resulting in a total loss of ICT services for a week.

14. The County Council’s ICT Strategy 2014-17 sets out the technology direction of travel and the key work programmes supporting its delivery. This includes the transition away from owning and operating a data centre and all of the associated infrastructure (servers, storage, switches, racking, power, air conditioning etc.) with a move to using off-site data centres, commonly referred to as *cloud* services. Whilst there are a range of security risks associated with this approach, they are well understood and we have experience through our current use of a second data centre at Derby. The leading technology market analysts (Gartner) advise *cloud* solutions as providing the public sector with the best security levels over the next 2 years.

15. The establishment of alternate service delivery models such as ViaEM, Inspire and ARC provides a new risk in the short term, whilst arrangements are made to segment applications and data access between the new client and contractor functions. There is ongoing activity to achieve this separation.

Reason for Recommendation

16. To raise awareness of the approach to cyber security within the County Council.

Statutory and Policy Implications

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

RECOMMENDATION

1) It is recommended that the content of this report is noted.

Ivor Nicholson
Service Director – ICT

For any enquiries about this report please contact: Ivor Nicholson on 0115 9774006

Constitutional Comments:

18. This report is for noting only so no constitutional comments are required.

Financial Comments

19. No financial comments required.

Background Papers

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to Audit Committee

08 March 2017

Agenda Item: 5

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

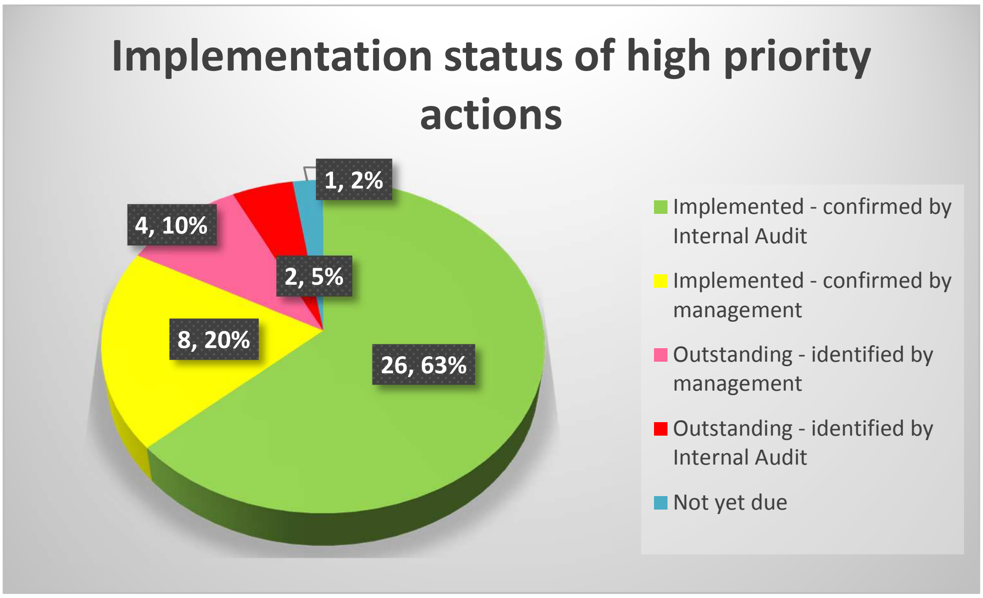
2. Internal Audit carries out regular follow-up work to obtain assurance that the actions proposed by management in response to Internal Audit's recommendations are being taken. This assurance is obtained in two phases, as set out below:

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

3. 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 (issued since April 2015). 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:



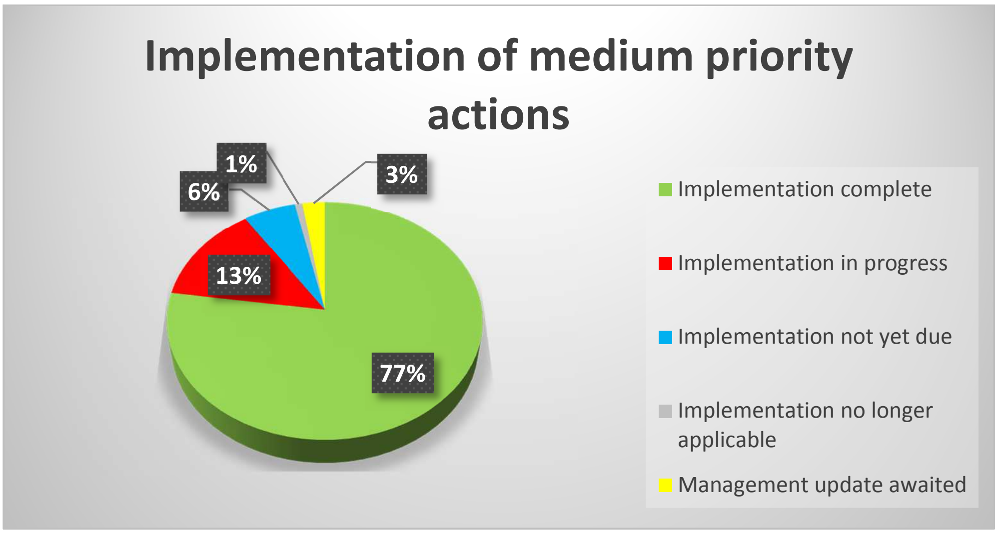
5. As reported in September 2016, a high level of assurance was received from management that agreed actions on high priority recommendations have been implemented. Since the last meeting, Internal Audit has completed follow-up testing in the following areas of service, and with the following outcomes:
   a) ASCHPP Dept.: Service user contributions to residential and nursing care – agreed actions have been taken.
   b) ASCHPP Dept.: Market development and care standards – the primary control around safeguarding cases is in place, and a supporting control is being actively progressed.
   c) CFCS Dept.: School swimming – a range of actions have been taken to address the budgetary control issues previously identified.
   d) CFCS Dept.: Locality based client accounts – testing has confirmed the closure of the locality accounts in favour of client funds being accounted for within the Council's Business management System.
   e) Place Dept.: Broadband - the action to discontinue use of the limit order has now been implemented.
   f) Place Dept: Catering – compliance tests identified that progress is continuing with the re-introduction of sample checking of suppliers' consolidated invoices.

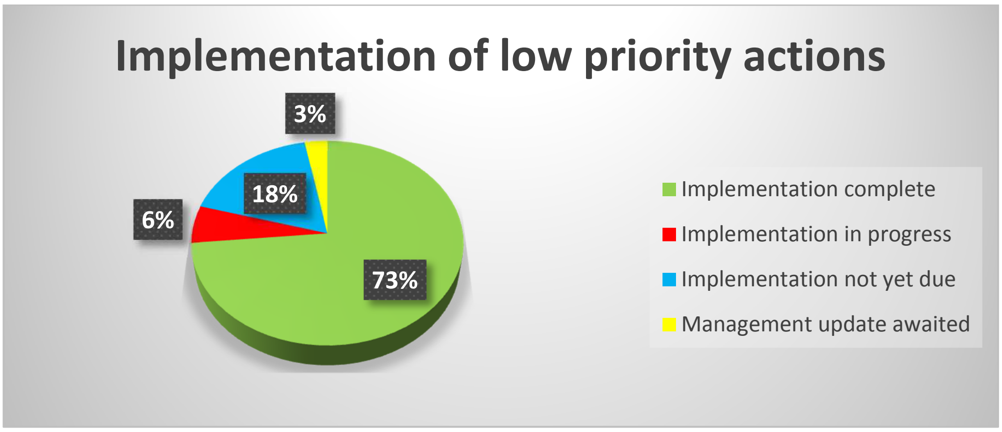
6. The outstanding high priority actions relate to the following:
   - CFCS Dept.: External placements – implementation of compliant procurement procedures. The Group Manager for this service area attended the Audit Committee in December 2016 to provide a verbal update. Progress is continuing, as set out in the appendix. A further update will be brought to the next meeting of the Committee.

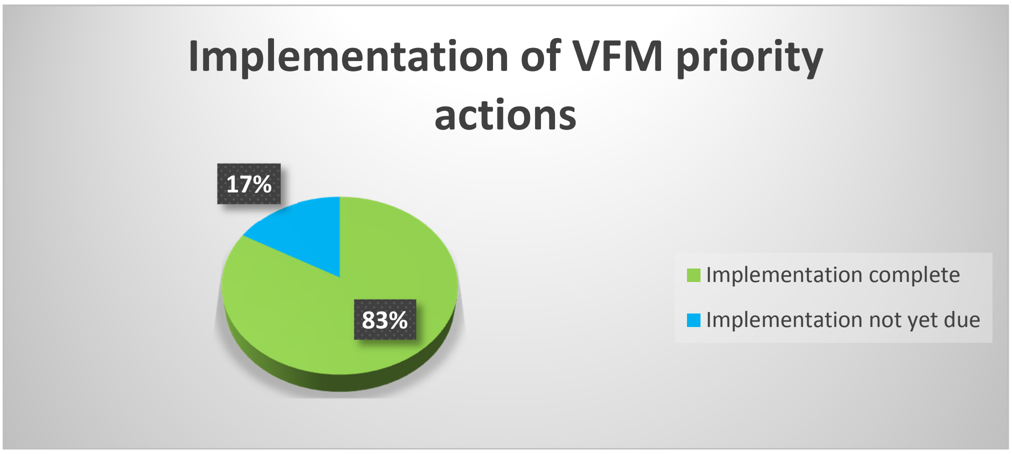
- Catering Service (County Hall and Trent Bridge House) – partial progress with the re-introduction of sample checking of suppliers' consolidated invoices.
- Council-wide: Information governance – four actions relating to the Information Asset Register remain in progress beyond the timescale originally envisaged, and all have now been assigned a revised implementation date of July 2017.

Medium, Low & VFM Priority Actions

7. Progress with implementation of these recommendations is summarised in the following charts.







8. The position above relates to the assurance updates received from management. Internal Audit's follow-up testing of selected 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

9. 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 June 2017 in relation to one or more of the areas in which agreed actions remain outstanding.

Other Options Considered

10. 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

11. 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

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

Financial Implications

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

RECOMMENDATION/S

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

Nigel Stevenson
Service Director – Finance, Procurement and improvement

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

Constitutional Comments [KK 13/02/217]

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

Financial Comments [RWK 02/02/2017]

14. 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
Department: Adults' Social Care, Health and Public Protection						
Service Area: Quality & Market Management Audit: ASC1601 Service User Contributions to Residential and Nursing Care						
A1	Revise the main financial assessment form to incorporate a field to record the names and contact details of those who can correspond on behalf of service users.	30th June 2015	Completed	Complete	Testing confirms the control has been implemented.	Confirmed by Internal Audit
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		Testing confirmed that the action has been implemented.	Confirmed by Internal Audit
Service Area: Quality & Market Management: Locality Offices Audit: ASC1607 District Client Accounts						
A5	Update and expand staff guidance on the management of service users' finances	31st March 2016 (original); 31st October 2016 (revised)	Staff guidance on criteria is still in draft. Team Manager will complete by 31st October 2016	Complete	The guidance has been released on the Council's intranet and drawn to the attention of relevant staff.	Confirmed by Internal Audit
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.	Complete	Strong arrangements for communications between safegiarding teams, the MASH and the Quality & Market Management Team are in place and these provide for the primary control. As a secondary control, a monthly report of safeguarding cases is being developed.	Confirmed by Internal Audit
Service Area: Homecare Audit: ASC1706 Procurement of interim homecare service						
A7	Staff will be informed that they are to discuss any contract requirements with the Market Management team and Procurement to find a solution. As a last resort a waiver from tendering should be applied for.	Immediate	Management update to be obtained for June 2017 udate	Compliance testing to be scheduled following the management update		
A8	Establishment of the Contracts and Payments Overview Group to improve communications between the department and Corporate Procurementand to keep procurement activity under review.	Nov-16	Management update to be obtained for June 2017 udate	Compliance testing to be scheduled following the management update		

Action Ref.	Action Description	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
Department: Children, Families and Cultural Services						
Service Area: Adolescence and Early Help Locality Services Audit: CFCS1602 School Swimming Service						
C1	Pricing to recover expected costs and provide for future investment through: move to trader account status; targetting price increases at schools requiring more stafing support; budgetary restraint	Trader account September 2015; notification in February 2016 of September price increases	The increase in charges to Schools in 16/17 and 17/18 accademic years were agreed. We are working with Finance to convert the service to a Trading account to allow limited reserves to be accrued in good years to balance unplanned expendiure in bad years (e.g. unexpected pool closure). All aditional instruction to support children with additional needs are being paid for by the schools.	In progress	Testing has confirmed that a range of actions have been taken to bring the actual income and expenditure in this area of activity back into line with approved budgets.	Confirmed by Internal Audit
C2	Reduce overspending through: Bridging Clubs becoming self-funding or deleted; Group Manager scrutiny of spend; utilise Access to Work funding; renegotiate transport contracts; recharge pool poviders for unplanned closures; review staffing structure	September 2015 onwards	A wide range of actions and initiatives are reported by management to implement budgetary restraint			Confirmed by Internal Audit
Service Area: Children's Social Care Audit: CFCS1608 Locality-based Client Acounts						
C3	Designated officer within the Department to take responsibility for the establishment and overview of locality based accounts	End of financial year 2015-16	On transfer to the Council's new bankers all Children's client accounts were closed. Where balances were held these were returned to the charities which they had been gifted by. A small amount remains which we are unable to return due to the charities no longer existing. This money will be donated to the Chairman's Charity when it is confirmed that there is no possibility of returning to any 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.	Complete	The agreed actions have been taken. Locality-based accounts have been closed and client funds are now visibly accounted for within the Council's Business management System.	Confirmed by Internal Audit
C4	A central departmental record of all client accounts should be maintained	End of financial year 2015-16				Confirmed by Internal Audit
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 latest management update advised that new providers have recently been accepted on to the East Midlands Regional Children's Framework, including one supplier that NCC currently uses. In addition, some existing suppliers on the framework have extended their offer into different placement categories. Despite this, the framework still does not provide for all placement needs, and this is a difficulty being experienced by other local authorities. Whilst management consider that the frequency of using spot providers remains low, work is ongoing with both Legal Services and the Procurement Section to pursue alternative and compliant procurement options. This will include the development of a process around the use of spot providers, for application across the Council.	Complete	Further follow-up testing will be scheduled once management have confirmed a revised process is in place.	Implementation remains in progress	
Service Area: Access to Resources Audit: CFCS1705 Troubled Families							
C6	Comparisons against trajectory numbers of families worked with on the Programme will be included in quarterly reports going forward. These will be considered by a newly formed bi-monthly Project Board from December 2016. We will continue regular dialogue with the Department for Communities & Local Government on local and national progress and future funding models.	From December 2016	Target numbers and comparisons with trajectory now go to the Board and Operational Group. Future targets will be directly provided by DCLG. Internal dialogue about future funding models is ongoing.	Testing scheduled for Q2 of 2017/18		Confirmed by management	
C7	Routine auditing to ensure that targets meet the Nottinghamshire Families Outcomes Plan definitions before any claim can be made. Introduction of a new technical plan, separate to the plan for the family, which we expect will make it easier for practitioners to produce a compliant plan. Non-compliance will continue to be discussed in supervision by the managers who are responsible for signing off the plan. Consider the need for specialist FAP authors as we use for social care cases.	Immediate	The technical plan has been piloted and is due to go live on the Faremwork -I system imminently. Delays have been due to the change freeze associated with the move to the MOSAIC system. Specialist FAP authors have been considered and rejected but oversight and development of case holders continues.	Testing scheduled for Q2 of 2017/18		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
Department: Place						
Service Area: Economic Development Audit: PPCS1601 Broadband						
P1	Discontinue the use of limit orders in favour of each supplier invoice being matched with a duly approved purchase order in the Business Management System	Already implemented	The response to the recommendation confirms the agreed action has already been taken.	Complete	The limit order has now been closed.	Confirmed by Internal Audit
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 Seprtember 16 onwards.	Complete	Sample checking of consolidated invoices to supporting records for deliveries to the Council properties on the West Bridgford campus are in place. Work remains in progress to re-introduce these checks in respect of deliveries to schools.	Implementation remains in progress
	The recommendation advised further that:					
P3	- Each month, the three school P&L accounts with the highest cost per meal should be explained.					
P4	- food costs in the school P&L accounts should be agreed to BMS at the end of each school year.					
P5	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.		Testing confirmed that the action has been implemented.	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
Department: Cross-Cutting						
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	Pending procurement of new contract - The investigation of altering the online system to include the VCDR number was prohibited by cost midway through the life of the current contract. It is likely the current contract will be extended for 12 months from 10/11/2017 to 09/11/2018. The future procurement exercise will have this built into the invitation to tender. In the meantime, manual checking of changes to longer term agency placements by HR business partners takes place on a quarterly basis as part of the data collection for the return to Personnel Committee. A detailed item appeared in November's Team Talk entitled "Continued Scrutinyof the use of agency workers" which provided 8 key reminders to hiring managers	Testing of the quarterly manual process scheduled for Q2 of 2017/18		Confirmed by management
	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 or a manual system will be implemented.				
	c) Build into future tendering exercises for this service the requirement to differentiate between the nature of agency placements	Fo the end of the curent contract in November 2017 or 1 year later if the option to extend is taken iup				Pending new contract
XC2	Specific report from the service provider system to identifiy 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	Tenure information is now included in the monthly MI reports received from Reed which allows ongoing challenge to managers over the duration of placements and the need to have an identified exit strategy. Further developments since the audit include the introduction of a cap on all qualified children's social care posts with a minimum reduction of £4 per hour for all new supply. We continue to negotiate tenure discounts for the longer term placements from 6 months onwards	Testing of the monthly report & challenge process scheduled for Q2 of 2017/18		Confirmed by management
XC3	Corporate Directors will be reminded of the processes surrounding the engagement of consultants as set out in financial regulations.	End of December 2016	Financial Regulations have been updated and will be published on the intranet during February 2017. Corporate Directors and their leadership teams have been reminded by their respective Senior Finance Business Partners of the processes surrounding the engagement of consultants	Testing scheduled for Q2 of 2017/18		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
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.	December 2016 (original) July 2017 (revised)	Review has been implemented as planned and a number of revisions have been agreed with Information Asset Owners (IAOs). Work is ongoing with IAOs to identify Information Sharing Agreements in relation to Information Assets (IAs) and to ensure all relevant IAs are included in the Register.	Testing scheduled for Q3 of 2017/18 following a further management update in Q2 of 2017/18		Implementation remains in progress
	b) The Information Manager is reviewing all aspects of the IAR, including Business Impact Levels and security classifications	December 2016 (original) July 2017 (revised)				Implementation remains in progress
	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).	December 2016 (original) July 2017 (revised)				Implementation remains in progress
	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.	April 2017 (original) July 2017 (revised)				Implementation remains in progress
	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		Confirmed by management

Nottinghamshire County Council

Report to AUDIT COMMITTEE

8 March 2017

Agenda Item: 6

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

CERTIFICATION OF GRANT AND RETURNS 2015/16

Purpose of the Report

1. To inform Members of the External Auditors' audits of the Teachers' Pension Return and the Local Transport Plan Major Projects S31 AUD Return for 2015/16.

Information and Advice

2. Outside of the normal external audit arrangements, KPMG undertook audits of the Teachers' Pension Return 2015/16 and the Local Transport Plan Major Projects S31 AUD return.

Teachers' Pension Return 2015/16

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

4. The Teachers' Pension Return 2015/16 had a total value of £28.2 million.

5. The auditors conducted their reasonable assurance engagement and concluded that the Teachers' Pension return for the year ended 31 March 2016 had been prepared, in all material respects, in accordance with the regulations underpinning the Teachers' Pension Scheme.

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

Local Transport Plan Major Projects S31 AUD Return 2015/16

7. The Local Authority is responsible for compiling the S31 AUD return with relation to the Department for Transport grant received to help fund the Hucknall Town Centre Improvement Scheme. The return sets out that the grant has been used in accordance with the grant agreement.

8. The S31 AUD return 2015/16 had a total value of £2.4 million.

9. The auditors conducted their reasonable assurance engagement and concluded that the S31 AUD return for the year ended 31 March 2016 had been prepared, in all material respects, in accordance with grant conditions underpinning Local Transport Plan Major Projects.

10. The audit fee associated with the audit of the Local Transport Plan Major Projects Return was £3,000.00.

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That Members note the Teachers' Pension Return and the Local Transport Plan Major Project Return audits and associated audit fees.

Nigel Stevenson
Service Director – Finance, Procurement and Improvement

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

Constitutional Comments

12. None – the report is for noting only.

Financial Comments (GB 10/02/2017)

13. The audit fee associated with the Teacher's Pension Return was £3,000.00. The audit fee associated with the Local Transport Plan Major Projects Return was £3,000.00. This was in line with the budget provision in place.

Background Papers and Published Documents

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

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to AUDIT COMMITTEE

8 March 2017

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

STATEMENT OF ACCOUNTS 2016/17 – ACCOUNTING POLICIES

Purpose of the Report

1. To allow the Audit Committee to review and approve the proposed accounting policies used in creating the Authority's Statement of Accounts for 2016/17.

Information and Advice

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

3. As well as updating the various dates in the policies there is one change to those approved last year. The Authority is required to make these changes to the Accounting Policies in order to comply with amendments made to the CIPFA Code of Practice 2016/17.

4. The 2016/17 Code has changed the segmental reporting arrangements required for producing the Statement of Accounts. In previous years, the main statements have been reported in line with the Service Reporting Code of Practice (SERCOP). From 2016/17 onwards however these reports will include a segmental analysis based upon how organisations are structured. As such, there is no longer an absolute requirement to apportion support service overheads to services. This change is reflected in Accounting Policy 5.

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

Other Options Considered

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

Reason/s for Recommendations

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

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That Members approve the changes to the Authority's accounting policies.

Nigel Stevenson
Service Director – Finance, Procurement and Improvement

For any enquiries about this report please contact:

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

Constitutional Comments (KK 23/02/2017)

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

Financial Comments (GB 23/02/2017)

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

Background Papers and Published Documents

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

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

Electoral Division(s) and Member(s) Affected

- Not applicable

STATEMENT OF ACCOUNTING POLICIES

1. General Policies

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

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

2. Exceptional Items

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

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

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

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

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

4. Charges to Revenue for Non-Current Assets

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

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

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

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

5. Costs of Support Services

The Code no longer requires main statements to be prepared in accordance with the Service Reporting Code of Practice (SERCOP). There is no absolute requirement therefore to apportion support service overheads to services. The treatment of overheads within the main statements will be consistent with the authority's arrangements for reporting accountability and financial performance.

6. Employee Benefits and Pensions

Benefits Payable During Employment

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

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

The Local Government Pension Scheme (LGPS)

The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of projected earnings for current employees. In assessing these liabilities at 31 March 2017 for the 2016/17 Statement of Accounts, the actuary made a number of changes in the assumptions underlying the present value of the scheme liabilities. These include a change in the assumed pensions increases and inflation. Application of these revised assumptions has resulted in an increase in liabilities measured at today's prices of £xx million (£xx million LGPS, £xx million Teachers).
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into several components:
  - current service cost / gain – the change in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on scheme assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – credited/debited to the Pensions Reserve
  - contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

7. Revenue Expenditure Financed from Capital Under Statute

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

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

8. Property, Plant and Equipment

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

Recognition

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

Assets are, however, only recognised when they exceed the de-minimus levels for 2016/17 set out below:

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

The current land and building values used in the Statement of Accounts are based upon a certificate as at 31 March 2017 issued by Mr I Brearley MRICS, Team Manager – Property and Strategy Management from the Authority's Property Division on 6th June 2016. A rolling 5 year revaluation programme is in place to maintain the accuracy of the valuations. When significant changes occur in any year they are included in the revaluation schedule undertaken during that year.

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

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

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

Impairment

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

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

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

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

Depreciation

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

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

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

Where an item of Property, Plant and Equipment has major components whose costs are at least 20% of the total cost of the item, the components are depreciated separately. A review was carried out for all items over a de-minimus of £0.5 million. For the 2016/17 Statement of Accounts, the Authority has not identified any components to be d epreciated separately.

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

Capital receipts are required to be credited to the Capital Receipts Reserve and can then be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Also, from April 2016 for a three year period, there is greater flexibility for local authorities to use capital receipts to fund the revenue costs of business transformation. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

9. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

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

Available for Sale Assets

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

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

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

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

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

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

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

10. Cash and Cash Equivalents

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

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

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

11. Other Assets

Intangible Assets

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

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

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

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

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

Interests in Companies and Other Entities

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

Investment Property

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

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

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

Jointly Controlled Operations and Jointly Controlled Assets

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

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

12. Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

13. Inventories

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

14. Accruals of Income and Expenditure

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

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

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

15. Financial Liabilities

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

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

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

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

16. Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure

Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

17. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

18. Government Grants and Contributions

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

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

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

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

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

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

Where the grant has yet to be used to fund the revenue expenditure in relation to the purpose of the grant, it is appropriated into a specific revenue grants reserve. Once the expenditure has been incurred it is appropriated out of the specific revenue grants reserve.

19. Provisions

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

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

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

20. Contingent Liabilities

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

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

21. Contingent Assets

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

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

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

22. Reserves

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

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

23. VAT

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

24. Events After the Balance Sheet Date

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

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

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

25. Foreign Currency Translation

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

26. The Carbon Reduction Scheme

The authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its second phase, which ends on 31 March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

27. Heritage Assets

Tangible and Intangible Heritage Assets

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

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

Ceremonial Regalia and Art Collection

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

Architectural Drawings and Records

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

Heritage Assets – General

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

28. Schools

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

Accounting for Schools Property, Plant and Equipment

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

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

The assets of those Schools that convert to Academy status are derecognised from the Authority's Balance Sheet at nil proceeds. No impairment is recognised by the Authority prior to disposal.

Nottinghamshire County Council

Report to Audit Committee

8 March 2017

Agenda Item: 8

REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT AND IMPROVEMENT

INTERNAL AUDIT PLAN – 2017/18

Purpose of the Report

1. To inform Members of the proposed Internal Audit Plan for the 2017/18 financial year.

Information and Advice

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

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

4. The attached Audit Plan sets out the proposed coverage of the Authority's systems and procedures which deliver the Council's priorities, for the period 2017/18. The Plan represents the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control.

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

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

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

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

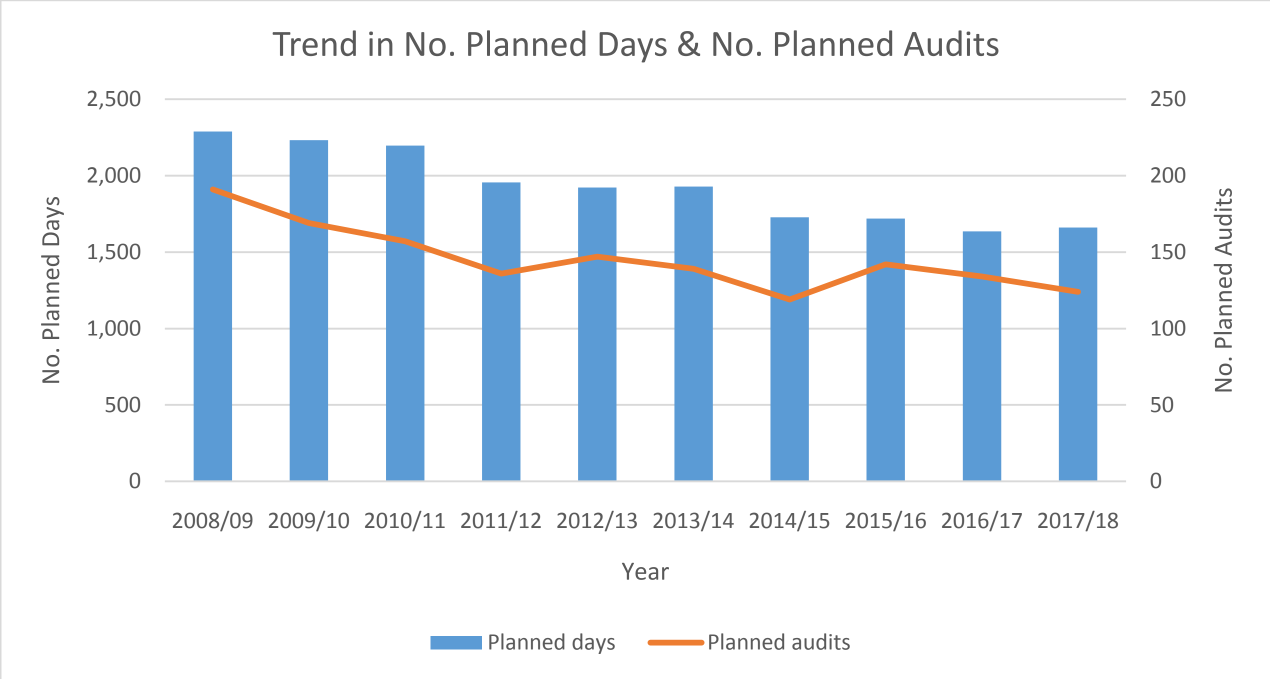
8. This work is important in enabling the County Council's External Auditors to form a view on the overall adequacy of the Council's financial controls, which in turn supports their assessment of whether the County Council's annual statement of accounts gives a "true and fair view". The work is also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

9. The Plan has been compiled in accordance with the Public Sector Internal Audit Standards, which came into force in 2013. A detailed breakdown of the 2017/18 Plan is shown in ***Appendix 1***, and is summarised in the table below.

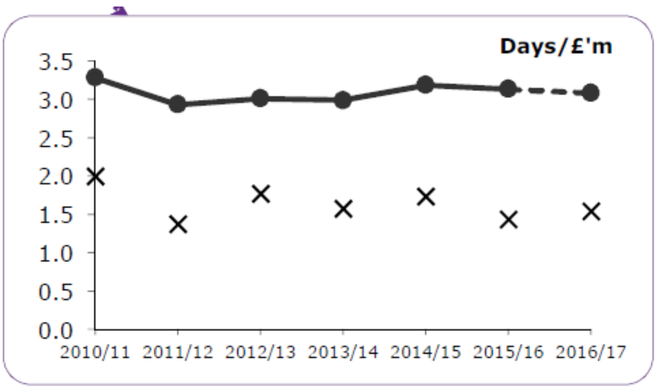
Department	**Days**	**Number of Audits**			
		High Risk	**Med Risk**	**Other**	**Total**
Council-wide	361	13	4	5	22
Children, Families & Cultural Services (excluding schools)	128	-	5	2	7
Schools	338.5	-	45	-	45
Adult Social Care, Health & Public Protection	265	3	9	9	21
Place	198	6	5	5	16
Resources	220	6	7	-	13
Contingency	150				
Total County Council	1660.5	28	75	21	124
External Clients (Notts Fire & Rescue, School Funds)	115				
Grand Total	1775.5				

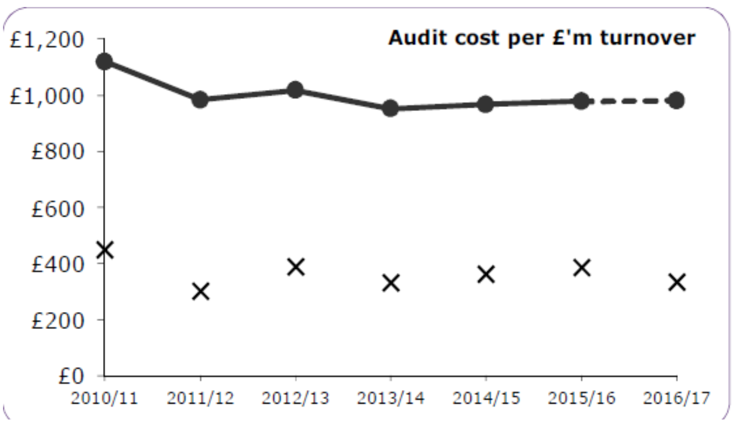
10. As can be seen from the above, a total of 1,775 days are planned for 2017/18 of which 1,660 (93%) will be spent on the Authority's systems and procedures. The remaining 115 days will be spent on external contracts, providing an internal audit service to Nottinghamshire Fire and Rescue Service and limited work on school funds. The costs incurred in delivering external contracts are fully recovered. Progress against the plan will be reported to the Council's Audit Committee and the Corporate Leadership Team on a regular basis.

11. The chart below shows the trend in the number of planned days (blocks) and the number of planned audits (trend line) in recent years. The plan for 2017/18 shows a similar number of days to that in 2016/17, but a reduction in the number of jobs. The reason for this is that more of Internal Audit's work is being focussed on the council-wide processes and procedures, in accordance with the outcome of the Audit Needs Assessment. These audits require more days to carry out than a typical, departmentally focussed review.



12. The Plan should maintain the extent of audit coverage of the Council's activities at a comparable level to previous years. The Section participates in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for internal audit services. Extracts from the latest benchmarking report received in December 2016 show the Council's Internal Audit Section (plotted 'X's) is below the comparator average (trend line) both in terms of the number of days per £1m of expenditure and in terms of the cost of the Internal Audit service per £1m of the Council's turnover.





13. Attached as Appendix 2 is a paper produced by the Council's external auditors, KPMG, entitled 'Redefining Internal Audit'. KPMG undertook an analysis of local government providers of internal audit sections and the paper presents its findings across a number of

key themes. The paper is appended to this report to provide relevant context for members in considering the proposed Internal Audit plan for 2017/18.

Other Options Considered

14. This report is for information and noting only.

Reason/s for Recommendation/s

15. To provide information to Members on the Internal Audit Plan of work for 2017/18.

Statutory and Policy Implications

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

RECOMMENDATION

1) That the Internal Audit Plan 2017/18 be noted.

Nigel Stevenson
Service Director (Finance, Procurement and Improvement)

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

Constitutional Comments (KK 08/02/2017)

17. This report is for noting only.

Financial Comments (RWK 06/02/2017)

18. There are no specific financial implications arising directly from the report.

Background Papers

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

- None.

Electoral Division(s) and Member(s) Affected

- All.

Appendix 1

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

Area of activity	Risk Level	Days planned and nature of audit coverage				Likely scope
		Assurance	Advice/ Consultancy	Counter-Fraud	Certification	
Quarterly follow-up of recommendations	High	60				Quarterly updates to CLT and the Audit Committee on the implementation status of agreed management actions
Accounts receivable & debt management	High	20				Assurance review of key controls and their consistent application across departments.
Commissioning	High	30				To cover whole cycle from business planning, service specification, evaluation of commissioning options and through to performance review (scope to exclude external procurement of services - separate audit)
Business continuity	High	15				Review of corporate approach and compliance with guidance by critical services across the Council
Procurement – compliance with tendering requirements	High	25				Extension of work carried out in 2016/17 in the ASCHPP Dept, to assess compliance with tendering requirements across the Council
Imprest accounts	High	20				Review of corporate control over imprest usage, and the application of effective cash handling across departments
Travel expenses	Med	15				Assurance review of key controls and their consistent application across departments
Service planning & performance management	Med	20				Assurance review of key controls and their consistent application across departments
Health and Safety	Med	6				Review of external sources of assurance of the Council's compliance with health and safety requirements, and planned actions to address any issues raised
Smarter Working	Med	15				Review of the achievement of project objectives , within time and budget
Pro-active fraud awareness	High			10		Activities to raise staff awareness of, and alertness to, fraudulent activity
Serious & organised crime threats	High			15		Following self-assessment against the Home Office/DCLG checklist, more detailed reviews of potential areas of vulnerability
National Fraud Initiative	High			15		Participation in the b=national exercise, co-ordinating the Council's response to reported data matches
National Anti-Fraud Network	High			2		Review of fraud alerts and onward dissemination to key contacts for any of relevance to NCC activities
BRMI Project			15			Advisory input to the development of the project
Risk, Safety & Emergency Management Board			2			Head of Internal Audit attendance at Board meetings
Annual Governance Statement			10			Compilation of year-end statement and quarterly meetings with statutory officers to update
Finalisation of 2016/17 audits		35				Contingency to finalise audits from the 2016/17plan
External Audit liaison			1			Quarterly update meetings with the external auditors
Audit Committee Support			30			Support of, and attendance at, Audit Committee.
Sub-Totals		**261**	**58**	**42**	**-**	
Grand Total		**361**				

Children, Families and Cultural Services

Area of activity	Risk Level	Days planned and nature of audit coverage: Assurance	Advice/ Consultancy	Counter-Fraud	Certification	Likely scope
SEND Independent Special Schools	Med	15				Assurance review of key financial and contract controls over placement of eligible children and young people in independent special schools.
NCC Children's residential homes	Med	15				Assurance review of key controls and their consistent application across residential children's homes.
Personal budgets – resource allocation	Med	15				Assurance review of key controls for enablement of personal budgets and application of resource allocation system.
Direct payments – monitoring and auditing	Med	15				Assurance review of key controls for monitoring the spending of direct payments by service users and third parties.
Rufford Abbey – contract management	Med	15				Assurance review of contract receipts and contract management controls over commercial operations.
Remodelling Care programme			5			Identifying and evaluating the control implications of the Remodelling Care programme, notably in the light of relevant recent audits.
Finalisation of 2016/17 audits		15				Contingency to finalise audits from the 2016/17plan
Advice			20			Contingency for ad hoc advice to the department
Liaison with Leadership Team			10			Planning and progress update reports to the departmental leadership team and similar forums
Beeston Youth & Community Centre accounts					3	Certification of annual accounts
Schools – audit of 45 schools	Med	338.5				Review of a range of factors relating to School Budget Share.
Sub-Totals		**428.5**	**35**	**-**	**3**	
Grand Total		**466.5**				

Adult Social Care, Health and Public Protection

Area of activity	Risk Level	Days planned and nature of audit coverage				Likely scope
		Assurance	Advice/ Consultancy	Counter-Fraud	Certification	
Continuing Healthcare	Med	15				Assurance review of key controls for identifying, agreeing and recouping continuing healthcare funding.
Data quality audit	High	20				Assurance review of data input and output controls to Framework as affects commissioning and payments.
Delayed transfers of care	Med	15				Assurance review of consistent application across all locations of new guidance for handling daily situation reports on DTOC.
Direct Payment support services	High	15				Assurance review of current arrangements for supporting service users and overseeing accredited DPSS organisations.
Domiciliary care - contract management	High	15				Assurance review of procurement, tendering and contracting, plus contract management controls.
Resilience to emergencies	Med	15				Assurance review of each department's response to fulfilling statutory responsibilities and council and central government expectations.
Extra Care	Med		15			Reviewing existing Extra care schemes in the light of the current model for evaluating proposed schemes.
Younger Adults Residential & Nursing Care – dynamic purchasing system	Med	15				Assurance review of procurement and contract controls, the dynamic purchasing system having been implemented in 16-17.
Residential & Nursing Care self-funders	Med	15				Assurance review of the services provided to self-funders in residential and nursing care, notably offering financial planning advice.
Safeguarding vulnerable adults	Med	15				Review of assurance provision, taking account of any outstanding points from recent action plans, and the forthcoming consultancy engagement.
Short break services	Med	15				Review of department's new quality assurance programme and its consistent application across all short break centres.
County Enterprise Foods	Med	15				Assurance review of key controls over finances and contract management, including how contract performance is evaluated,
Sustainability & Transformation Plan			5			Advisory input concerning the council's responsibilities within the governance arrangements, or reporting and monitoring requirements.
Transforming Care programme			5			Advisory input concerning the control environment to manage risks around the programme.
Alternative Service Delivery Model – Direct Services			5			Continuation of advisory input on the ASDM should the business case or business plan or both be progressed.
Domiciliary care - procurement			5			Advisory input on procurement and contract risks to re-procuring providers of domiciliary care.
NCC funded service user funerals			3			Advisory input concerning policy formulation and compliance, and the financial implications.
Protection of service user property and pets			3			Advisory input concerning policy formulation and compliance, and the financial implications.
Trading Standards East Midlands – audit certificates					9	Certification of spending against annual grants of over £100,000 to Trading Standards East Midlands, including Scambusters
Finalisation of 2016/17 audits		15				Contingency to finalise audits from the 2016/17plan

Advice			20			Contingency for ad hoc advice to the department
Liaison with Leadership Team			10			Planning and progress update reports to the departmental leadership team and similar forums
Sub-Totals		**185**	**71**	**-**	**9**	
Grand Total		**265**				

Place

Area of activity	Risk Level	Days planned and nature of audit coverage: Assurance	Advice/ Consultancy	Counter Fraud	Certification	Likely scope
Travel Solutions Hub	High	15				Assurance review of the revised operating model for cross directorate specialist transport services
Highways Services (Via) – contract management	High	15				Assurance review of the management of the joint venture, including client management and service delivery
Highways Services retained client function	High	10				Review of the operation of the retained function and the achievement of service objectives
Property Services (Arc) – contract management	High	15				Assurance review of the management of the joint venture, including client management and service delivery
Property Services retained client function	High	10				Review of the operation of the retained function and the achievement of service objectives
Grant Aid	Med	15				Assurance review of grant aid to organisations & individuals
Shale Gas planning applications	High	10				Testing of controls agreed in 2016/17
Innovation Centres	Med	15				Assurance review of controls in place
Nottinghamshire Economic Development Capital Fund	Med	8				Testing of the application of controls identified during the previous audit (PPCS1503). These relate to payments and monitoring of funded projects
LEADER programmes	Med	10				Ongoing advice and support during the set-up and mobilisation phase of the two programmes
Waste management	Med	15				Contract compliance in terms of contractor performance, review of service delivery data and the approval of payments
Concessionary Fares – online applications			5			Advisory input to the development of online applications for concessionary travel passes
Carbon Reduction Certificate					5	Certification of the annual return
Broadband project					5	Input to the process for sign-off of the BT Contract
Bus Services Operators' Grant					5	Certification of BSOG returns
Platt Lane accounts					5	Certification of annual accounts
Finalisation of 2016/17 audits		5				Contingency to finalise audits from the 2016/17plan
Advice			20			Contingency for ad hoc advice to the department
Liaison with Leadership Team			10			Planning and progress update reports to the departmental leadership team and similar forums
Sub-Totals		**143**	**35**	**-**	**20**	
Grand Total		**198**				

Resources

Area of activity	Risk Level	Days planned and nature of audit coverage: Assurance	Advice/ Consultancy	Counter Fraud	Certification	Likely scope
Council elections	Med	15				Review of expenditure on the administration of elections
Payroll	High	15				Starters, leavers, variable pay, changes to standing data, payovers, external payroll provision, etc.
Digital Services	Med	15				Digital services, including the social media strategy. Scope to be agreed with the Service Director
ICT – Active Directory	Med	10				A centralised system that automates network management of user data, security, and distributed resources.
ICT – Cloud Computing	High		15			Advice during the transition to cloud computing
ICT – External Assurance	High	10				Review of actions arising from external assessments of a number of aspects of the council's ICT operations & infrastructure, with particular emphasis on security issues
ICT – Internet controls	Med	15				Internet/ Intranet security and maintenance, user access and usage (including email)
ICT - Networks	Med	10				Network controls, wireless network, voice network & Citrix
ICT – Project delivery	Med	15				The application of agreed standards to NCC projects and the process for utilising lessons learned in future projects. Include resource management
ICT Applications	High	15				Reviews in connection with departmental system s audits
Complaints service	Med	15				Procedures for the receipt and handling of complaints
Treasury Management	High	15				Management of the Council's bank accounts, investments and loans
Mosaic (Frameworki upgrade)	High		10			Advice during the upgrade process
Finalisation of 2016/17 audits		15				Contingency to finalise audits from the 2016/17plan
Advice			20			Contingency for ad hoc advice to the department
Liaison with Leadership Team			10			Planning and progress update reports to the departmental leadership team and similar forums
Sub-Totals		**165**	**55**	**-**	**-**	
Grand Total		**220**				

KPMG

Redefining internal audit

Local Government

kpmg.com/uk/localgovernment

Table of contents

Introduction

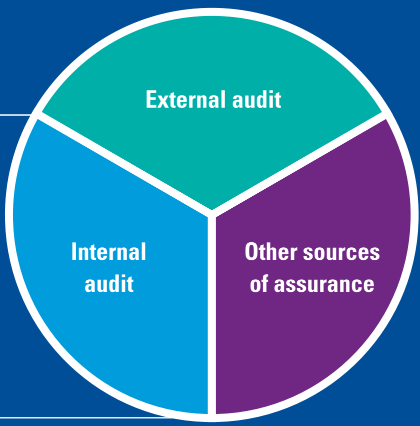
Internal audit represents one of the key sources of assurance for local authorities throughout the country. Alongside external audit and other sources of assurance, internal audit provides management and Members with an assessment of the effectiveness of governance and control arrangements, enabling them to make informed decisions and develop action plans to deliver improvements where necessary.

This report seeks to provide an oversight of the current status of the provision of internal audit services in the local government sector. It also highlights those areas where there is the potential to redesign delivery models in order to increase the value that internal audit providers can add to their clients.

Our findings are presented across six key themes:

- The nature of provision adopted;
- The way in which audit plans are structured and have changed over recent years.
- The adoption of assurance mapping;
- The use of data analytics;
- Internal audit staffing and skills; and
- Feedback mechanisms adopted

- Service to Management & Audit Committee
- Internal, external or co-source
- Considers risk management, internal control and governance
- Assurance and Consulting activity



Approach

Using publically available information published on authority websites, we have collated detailed information in relation to the volume and content of internal audit plans over a three year period.

We undertook a survey relating to the way in which internal audit operated throughout the sector. This was distributed throughout the sector and included Unitary Authorities, Single Tier Councils, Police, Fire Authorities, National Park Authorities and Passenger Transport Executives.

Based upon the results of our data collation and survey, we held interviews with a number of Finance Directors and Heads of Internal Audit in order to gain a more personal insight into the challenges facing the delivery of internal audit in the sector.

Internal audit

Internal audit can guard against the risk of financial savings while making its own

Internal audit can guard against the risk of financial savings while making its own

The case for excellent internal audit is never stronger than during a period of financial austerity. "If you turn off the taps of funding, change the way you operate your governance, your control environment, your service delivery, then naturally the organisation's senior management and its members have a greater assurance need," argues Tim Cutler, Partner at KPMG. "Change gives risk, and gives a need to monitor and to provide reassurance."

His conclusion is simple: "If I was a finance director, a chief executive, a chair of audit committee, I would be thinking internal audit is increasingly important to me – it's one of my ways of monitoring my risk profile."

It is a powerful argument, and there is an irony at its heart. "Like any other part of local government, internal audit cannot be immune to financial austerity. It has got to find cost savings like everyone else," he says.

Safeguarding the safeguarders

The result is two priorities which appear to be mutually incompatible. How can one safeguard against the risks of financial cuts if it is necessary to cut some of the safeguarding?

KPMG research suggests the issue is one being grappled with up and down the country. Over the last three years, two thirds of local authorities have seen the scale of their internal audit plan reduced as a result of funding cuts.

It is a stark reality, but not without possibilities according to Tim. "Internal audit can respond to financial challenges positively," he emphasises. "It's about focusing those audit days on the areas of greatest risk and with the greatest assurance need – targeting the work where it's going to give you the biggest bang for your buck, basically."

Avoiding duplication

One important way to do this is through assurance mapping. This involves building a record of all the assurance sources available to local authorities – both internal and external. In this way, it is possible to reduce duplication of work, as well as to identify areas where assurance is currently lacking.

Despite the clear benefits of assurance mapping, a KPMG survey suggests its current use is limited. Only half of the local authorities surveyed said they undertook such a process, and Tim suspects the true figure could be even lower. "Our own knowledge of working with the local government sector suggests even those who said they're doing it aren't really doing it to a full extent. I don't think many would say, hand on heart, we have a fully functioning, proper assurance mapping process which is comprehensive and effective."

While he admits assurance mapping can be a complicated process, he emphasises it does not necessarily need to be so. "It's one of those how long is a piece of string things. You can keep digging until the sun goes down, and there'll always be something else out there you can find.

But really conceptually at heart it's quite simple, which is identifying the areas in which you think you have something which is relevant, make sure you've got mechanisms to communicate and coordinate and consolidate all those things, and then have your internal auditor thinking about the outputs of them."

He says this is quite a different way of working to that which has gone before. "Assurance mapping is not something that's historically been done. Internal auditors were internal auditors, that's what they did, they had a plan, they delivered work, they went on to next year's plan. External regulators did other things, advisors did other things, and we never really pulled them together."

The need for board-level support

Changing that necessitates board-level involvement, he suggests. "Where assurance mapping happens, and where it happens most effectively, is where there's someone in the organisation at a senior level who sponsors the concept and tasks people with coordination."

That board-level understanding is equally helpful when it comes to to using data and analytic techniques in auditing: another area of real potential, according to Tim. "Data analysis is a huge opportunity, very high profile within audit community. And I think the key point for senior leaders is not to write it off as something expensive which only IT specialists can do with clever systems which we don't have."

The power of data

Simple tools like Excel are often sufficient to “flip on its head the work an auditor does, the coverage and scope that you get, and the comfort and assurance you can give,” he explains. “A traditional internal auditor will audit a particular area by using a relatively small random sample. Data analytics allows the entire dataset to be in the analysis. So you’re getting positive comfort and assurance on the entire population of data.”

Again, KPMG research suggests few local authorities are currently capitalising on this opportunity. Just seven per cent of respondents said data analysis was a routine part of their approach to internal audit. Three quarters said its use was minimal or non-existent.

Tim is keen to emphasise another key statistic from KPMG’s research: that three quarters of those surveyed said they were generally very satisfied with the service offered by internal audit. It speaks to the extent to which strong services are still being provided despite challenges. Yet the extent to which services could be strengthened further still is equally clear. And there could not be a more important time at which to do it.

Foreword

Tim Cutler

Partner
Local Government
KPMG in the UK

As a firm specialising in audit services to the local government sector, we have seen first-hand the changes required to respond to the funding reductions faced by Authorities over the last five years. The impact of these changes cannot be underestimated. Even where CSR announcements are more moderate than expected, funding reductions are set to continue and further change will be necessary. In light of the result of the EU Referendum, the level of uncertainty is likely to increase at least in the short term. This creates a heightened need for vigilance over an authority's risk profile in order to ensure that the is appropriate consideration of the changing landscape of local government.

Internal audit is not and should not be immune from change in the face of austerity or transformation, but it also has a role to play in supporting the wider Authority in how it can assess the impact of change and better understand risk in the future. Internal auditors need to evolve alongside the services that they review. A key part of this is through adopting elements of best practice, be that from the local government sector or in the wider internal audit market.

As a firm which invests heavily in the evolution of audit in a multitude of sectors, at KPMG we are keen to support this change. We have produced this report to set out some of the key challenges – and opportunities – that we believe local government internal auditors are facing. The report draws upon the results of a recent survey of local government Finance Directors, Heads of Internal Audit and Audit Committee Chairs, along with interviews and online research, to visualise and better understand the way in which internal audit teams are responding to these challenges.

The research identified some clear themes which local government internal audit teams need to focus on in the future – these themes form the structure of this report:

- Ensuring internal audit work is targeted sufficiently at the areas of greatest risk and assurance need, and is appropriately co-ordinated with other assurance mechanisms (Audit Plans; Assurance Mapping);
- Developing auditing techniques and staff skills that provide value to both management and Members, but which also maximise the efficiency and impact of audit work and the level of assurance provided through modern techniques that go beyond traditional sample testing and work in a more intelligent, informed and risk based manner (Use of Data Analytics; Staffing); and
- Ensuring that internal auditors accurately assess and understand their own performance and the way they are perceived by their clients (Feedback Mechanisms).

As authorities seek to improve their systems and processes, internal auditors must do the same. It is only by seeking to evolve themselves, as the authorities that they serve must also evolve, that internal auditors can deliver services that are of true strategic value and benefit. Key to this is ensuring that audit work is focused on those areas which will make the greatest difference and on those service areas where failures would have the most significant impact on the delivery of strategic objectives.

Key messages

Nature of Provision

42%

Just under one half of all authorities have some form of in-house internal audit provision.

19%

Only **19 percent** of authorities have a fully outsourced internal audit service. This is significantly lower than generally found in other public sectors.

39%

Over a third of authorities use consortium internal audit providers which are seen as providing access to improved benchmarking and best practice examples.

Audit Plans

66%

Over the last three years, two thirds of authorities have seen the scale of the internal audit plan reduced as a result of funding cuts.

18%

A comparison of internal audit plans over a three year period show an average reduction of **18 percent** in the number of audit days.

Risks

75 percent of authorities indicated that in response to these reductions they had increased the focus on strategic risks.

Assurance Mapping

50%

Only **50 percent** of authorities are currently attempting any form of assurance mapping model.

5%

5 percent of authorities indicated that the links between their strategic risks and the work of internal audit are weak.

All

Despite this, **100 percent** of authorities indicated that their strategic risks are covered by the work of internal audit on at least a cyclical basis.

Use of Data Analytics

Data

There is an increasing focus on the use of data analytics, and the way in which this can increase audit efficiency, throughout the audit market.

76%

However, **76 percent** of authorities indicated that they have only minimal or no usage of data analytics within their current internal audit provision.

Cost

Whilst there are initial costs incurred in the development of data analytics, the long term benefits are expected to exceed this.

Staffing

IT

Only **43 percent** of authorities indicated that their internal audit teams included in-house IT specialists, with **16 percent** had no access to such skills.

HoIA

All of the authorities surveyed confirmed that their Head of Internal Audit possessed qualifications relevant to their role.

43%

43 percent of authorities indicated that their internal audit staff consisted of a minimum of **50 percent** qualified professionals

Feedback Mechanisms

77%

Over three quarters of authorities are still to undertake the mandatory external assessment of compliance with the Public Sector Internal Audit Standards.

Time

Many authorities are delaying the assessment to allow change to embed. The deadline for completing this is 31 March 2018 so it may be at risk of being missed if not scheduled soon.

89%

Customer satisfaction surveys undertaken by internal audit providers indicate that at the vast majority of authorities the service provision is seen as highly satisfactory.

Nature of provision

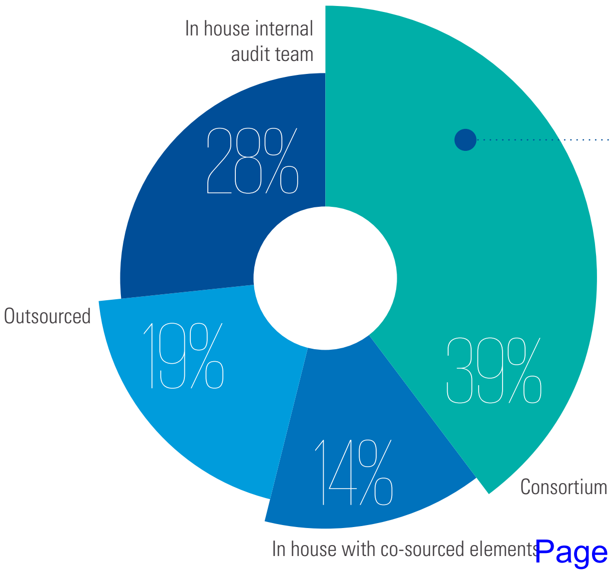
Two thirds of the respondents to our survey indicated that their internal audit service was by way of either an in-house team or a consortium (this includes both shared in-house audit teams and audit teams that have been transferred out to purpose built external companies providing services to a number of local authorities). These delivery models help to ensure that audit staff have a detailed understanding of the way in which local authorities work as well as the specific operations of the authorities that they serve. In contrast however, their ability to benchmark performance against the larger public sector practice, and specifically against commercial enterprises, can be limited due to the size and nature of their client base.

Less than one fifth of respondents used a fully outsourced model with this being more common at small authorities and police bodies. This represents a significant difference to many other parts of the public sector, for example the Health and Education sectors, where there is typically a significantly higher reliance upon outsourced services. To some extent this may reflect the scale of traditional local authority plans and the need to maintain sufficient in-house capacity in the internal audit team to deliver this volume of days. Where an outsourced model is adopted we generally see a reduced scale of audit, but one which is highly focused upon the risks facing the organisation to maximise the value of the resources allocated.

Audit Committee Question Prompts

- How can you best structure the provision of your internal audit service to provide the required level of independent technical expertise?
- Are there any areas of specific technical expertise which are not currently covered by the internal audit staff skill mix?
- How does the authority ensure value for money is achieved when procuring internal audit services and any additional expertise required?

Provision type



"From the Council's perspective the biggest benefit of this is the synergies that are created and the facilitation of knowledge sharing and benchmarking."

In relation to a shared service with smaller entities one council stated that "the main gain is for the other bodies as they gain access to a larger service. There is a benefit of gaining assurance over the use of monies granted by the Council to such entities though".

Our survey results indicated of those authority's using a co-sourced model, 88% were securing their IT expertise through outsourcing.

Audit plans

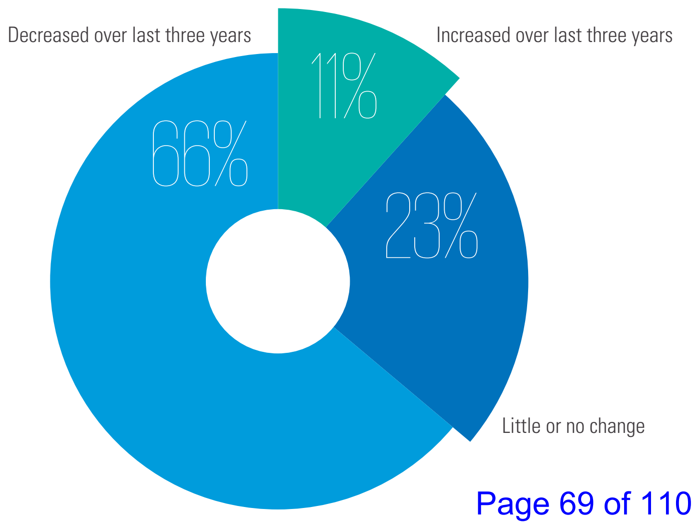
Over the last 6 years, the local government sector has borne a significant portion of the savings required as a result of the central spending reviews. This has necessitated significant changes in the way that authorities operate and the way that they deliver services. Internal Audit has not been immune to these changes and the level of funding available to deliver the audit programme has frequently been cut back.

In many cases this funding reduction has necessitated a change in how internal audit is delivered. Potential responses included:

- Reducing the staff cost base – This creates a risk that either the resource base will be insufficient to deliver the audit programme, or that staff are not sufficiently experienced to provide real value.
- Reducing the extent of the audit plan – Whilst this allows for the level of work required to be reduced in line with savings in staff costs, it also reduces the breadth of areas covered.
- Designing more efficient delivery models – This allows for the reduction in assurance to be minimised, but it can take significant time and initial investment in order to develop such models.

The vast majority of authorities have, at least in the short term, opted to accommodate the required level of savings by way of reducing the size of the audit plan. This approach need not have a negative impact on the overall level and quality of assurance provided to the audit committee if it is combined with a more risk based focus when planning the audit work for the year.

Volume of work



Based upon our web research, the average number of total internal audit days fell by 8% from 2013/14 to 2014/15 and a further 10% from 2014/15 to 2015/16.

Despite this, the average number of days per £'m of revenue has increased slightly from 3.4 to 3.6 over the same period. This may be representative of the speed with which funding has been reduced and the ability of authority's to respond at the same rate.

The majority of respondents (63%) indicated that they did not expect any further reduction in the immediate future. Just over one quarter (28%) however expected further significant reductions whilst only 9% expected an increase in the volume of work.

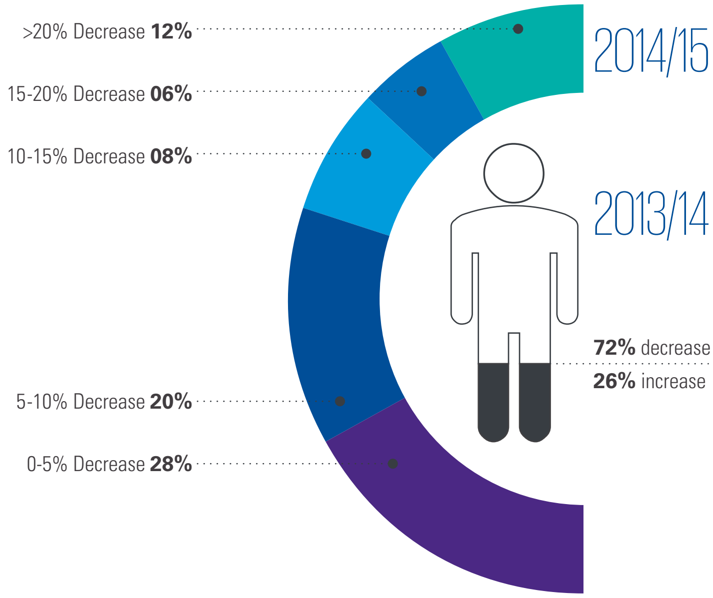
Audit Plans cont...

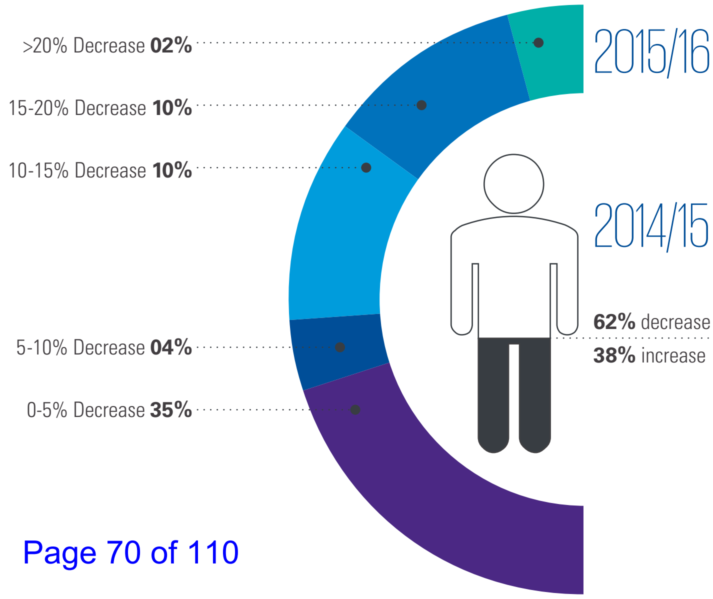
Whilst the average reduction in the number of days included in internal audit plans over the last two years has been 8% and 10% respectively, the impact upon individual authorities has varied greatly. From 2014/15 to 2015/16, 22%of authorities saw a reduction of over 10% whilst in the prior year 25% saw this level of reduction. In contrast, over a quarter of authorities have increased their audit plans in at least one of these years.

Audit Committee Question Prompts

- Has any reduction in the scale of the internal audit plan impacted upon the quality and extent of assurance provided?
- Are your strategic risks adequately reflected in the internal audit plan?
- Can your internal audit service deliver improved efficiency and more targeted audit focus?
- How is the authority going to accommodate further funding reductions in relation to their impact on the internal audit service?

Change in audit days



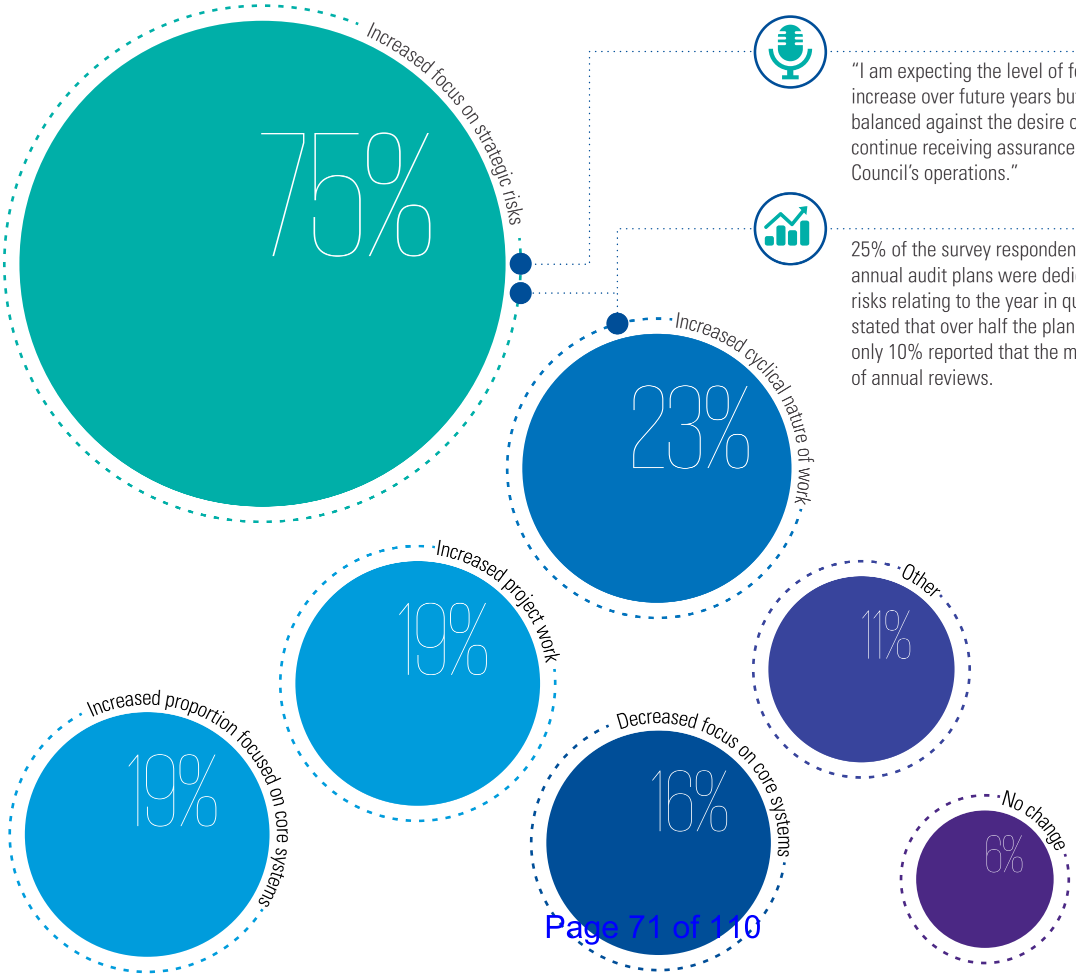


As indicated earlier, the funding reductions imposed upon local authorities has generally resulted in a reduction in the size an annual audit plans. In order to accommodate this, authorities have also been required to reassess the focus of internal audit work in order to maximise the value of the assurance they are receiving.

The way in which individual authorities have sought to reshape their internal audit services has differed depending upon the willingness to reduce the extent of assurance provided over individual areas of operation. The vast majority of authorities indicated that at least part of this response related to increasing the focus of the internal audit service on the key strategic risks facing the organisation.

This change allows for the increasingly limited resources to be focused upon those areas where assurance is needed most to ensure that strategic objectives are delivered.

Reshaping internal audit plans



"I am expecting the level of focus on strategic risks to increase over future years but this will need to be balanced against the desire of the Audit Committee to continue receiving assurance over the core areas of the Council's operations."

25% of the survey respondents indicated over half of the annual audit plans were dedicated to specific strategic risks relating to the year in question. In contrast, 16% stated that over half the plan related to cyclical work and only 10% reported that the majority of the plan consisted of annual reviews.

Assurance mapping

Whilst internal audit represents a key source of assurance to Members and management, it is not the only source of assurance available. Indeed, there are a wide range of assurance sources available to authorities including both internal and external processes, controls, and entities. In order to achieve greatest value for money, there is a need to understand the various assurance sources that are in place and how they interact with each other.

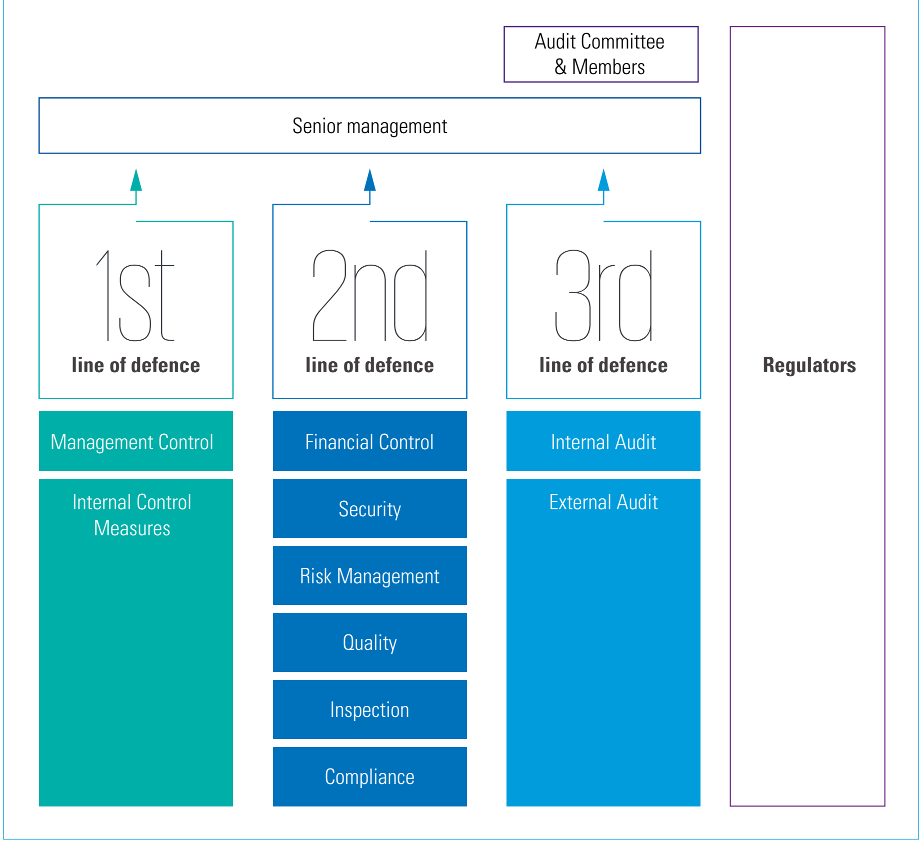
The "Three Lines of Defence" model helps identify the range of assurance sources available to an entity. An Authority's own internal controls form the first line of defence against risk. The effectiveness of these controls is then subjected to monitoring by the second line of defence consisting of the authority's internal quality control and compliance processes. The third, and final, line of defence is Internal Audit and can offer independent assurance over both the first and second lines of defence.

Effective assurance mapping is essential to ensuring that management and Members are aware of the way in which they are receiving assurance in relation to key areas of operations and over significant risks. In order to achieve this there needs to be an effective risk management process in place upon which assurance mapping can be built.

This delivers a clear understanding of those risks which are of greatest importance and in relation to which there is a need to monitor assurance processes. Having developed this, authorities can then begin to identify and record the assurance which they receive over these risks.

Despite the significant benefits of assurance mapping, only half of the authorities surveyed indicated that they undertook any form. Further to this, of those that did, a quarter failed to use it in the development of the internal audit annual plan.

The three lines of defence



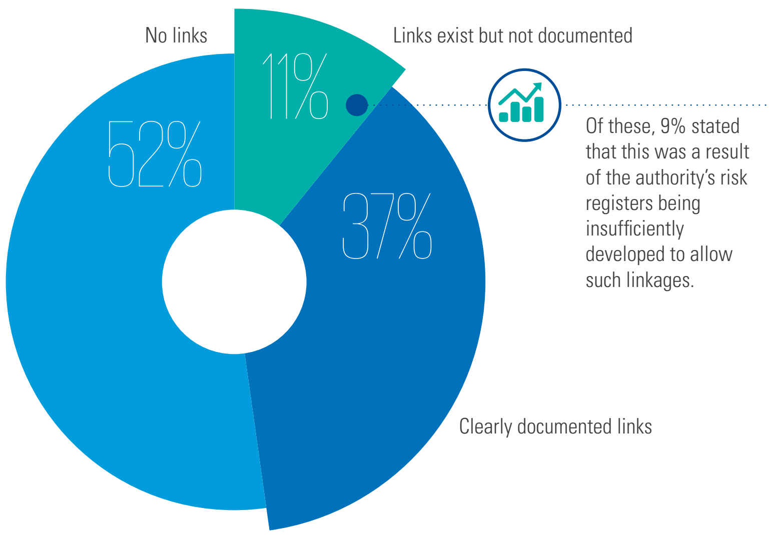
As a result of this, there is a risk that audit resources are being inefficiently directed to those service areas where the authority has already established adequate assurance processes from other sources.

An example of this is housing benefits. Whilst internal audit could undertake an in-depth review of the benefits service, including sample testing of claims, many authorities will already have a quality review team covering this area. As a result, internal audit may be more appropriately instructed to assess the adequacy of the work undertaken by the quality team. This follows the three lines of defence model, with the third line providing assurance over the second, which in turn provides assurance over the first.

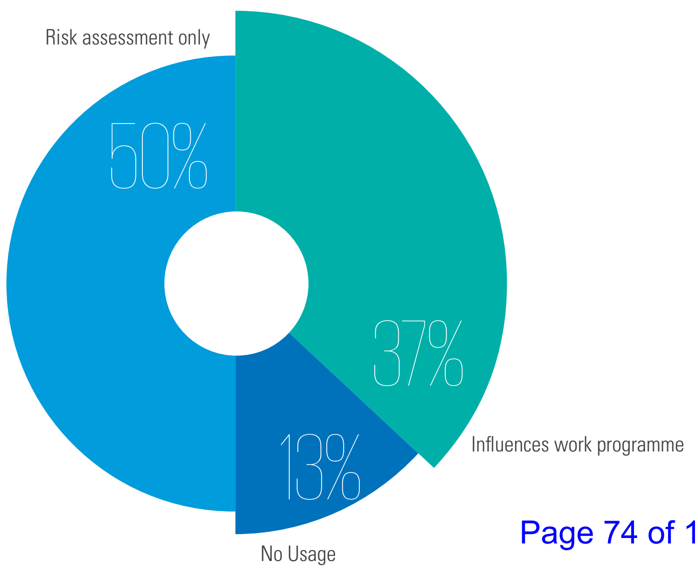
Coupled with assurance mapping, individual elements of the internal audit plan should be linked to key strategic risks so as to make it clear how the service is aligning with the authority's assurance needs. Whilst 89% of survey respondents stated that such linkages existed in their audit plans, only 37% confirmed that these links were clearly documented. The majority of those authorities with no such linkages indicated that this was a result of failings in the risk register. Such weaknesses also undermine the ability to develop effective assurance mapping.

Assurance mapping cont...

Links to key risks



Assurance mapping



Audit Committee Question Prompts

- How effective are your internal risk management processes and to what extent do you understand the various sources of assurances available to you?
- Have you established a formal assurance mapping process which is used to identify any assurance gaps and ensure that internal audit is focused in the most effective manner?
- Does the internal audit annual plan take account of the other sources of assurance which are open to the authority?
- Are individual internal audit reviews aligned to the authority's key areas of strategic risk?
- Are you aware of the various assurance sources operating within the authority and do you receive appropriate reports as to the results of their work?

Use of data analytics

Recent years have seen a significant increase in the focus on the use of data analytics throughout both internal and external audit provision. This has seen a shift away from large volumes of sample testing in favour of intelligent analysis of complete populations in order to identify those areas which, based upon an understanding of expected business practices, warrant detailed investigation.

We believe that the adoption of data analytics enables an appropriate balance to be secured between the value of audit outputs and the level of audit effort required to deliver those outputs. This is a balance that has historically been challenging to achieve.

The main benefits of increased use of data analytics include:

- **Precision** – data analytics provides for a higher level of precision in audit procedures which in turn leads to more valuable insights.
- **Integration** – through integrating data collection routines and processes into an Authority's existing systems the level of disruption is reduced.
- **Trends** – Access to a broader range of data facilitates the identification of meaningful patterns and provides actionable intelligence that matters to an Authority's business.
- **Insights** – Detailed analysis can uncover the business reasons behind issues and isolate the root cause of outliers and anomalies.

Use of data analytics cont...

Despite the additional value that can be gained through the use of data analytics, only 7% of survey respondents indicated that is had become a routine part of their approach to the delivery of internal audit. Over three quarters of responding authorities indicated that the use of data analytical procedures was minimal or non-existent.

For many authorities, there are two key challenges to the adoption of data analytics as an alternative to more traditional auditing techniques. The first of these is the experience and skills of current audit staff in relation to such procedures. Data analytics represents a significant change in the way that audit services are delivered. As a result, additional training is likely to be required.

The second key challenge is that there is an initial investment required in order to develop the data collection and analysis processes which underpin this model of delivery. This is especially true in relation to older information systems which may not enable the large scale extraction of data in a user friendly format.

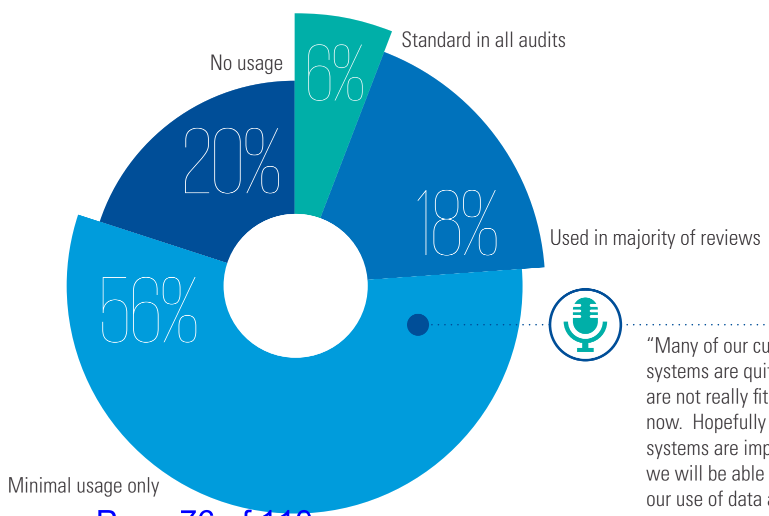
There is, however, some degree of misconception in relation to data analytics around the idea that it requires costly new software tools. Whilst purpose built software tools are available, and can greatly facilitate the analysis of data, it is also possible to make use of software packages that authorities already have access to, such as Microsoft Excel. By providing additional training on the more complex functions of these software packages, authorities can begin a wider adoption of data analytics without the need to invest in costly software.

Whilst the challenges facing full implementation of data analytics may require initial investment, this should be viewed in light of the long term benefits that will be secured. The adoption of data analytics not only offers a greater level of assurance, but provides the opportunity to increase efficiency and ensure that audit resources are focused upon those areas where the highest risk of failings arises.

Audit Committee Question Prompts

- What barriers exist to the successful implementation of data analytics at the authority and how can these be removed or overcome?
- Which areas of the authority's operations do you feel could benefit most from the adoption of data analytics as a model for the delivery of internal audit?
- How could the adoption of data analytics be used to increase the long term efficiency of the internal audit service and maintain the level of assurance provided despite funding reductions?

Use of data analytics



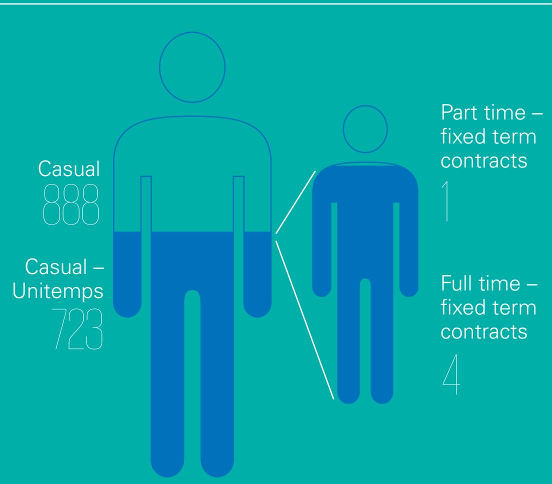
"Many of our current finance systems are quite old and are not really fit for purpose now. Hopefully as new systems are implemented we will be able to increase our use of data analytics."

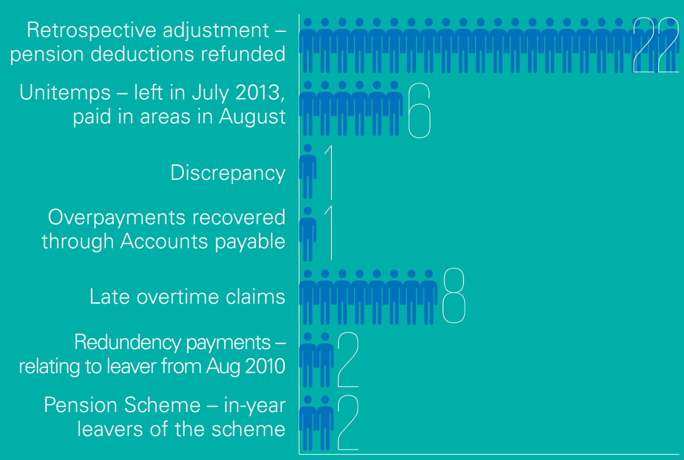
Case study - Data Analytics

Case Study - Payroll Expenditure

Data analytics routines can provide detailed assurance over the effective operation of systems and controls (such as those around starters and leavers). This can be achieved through the comparison of related data sets in order to identify inconsistencies.

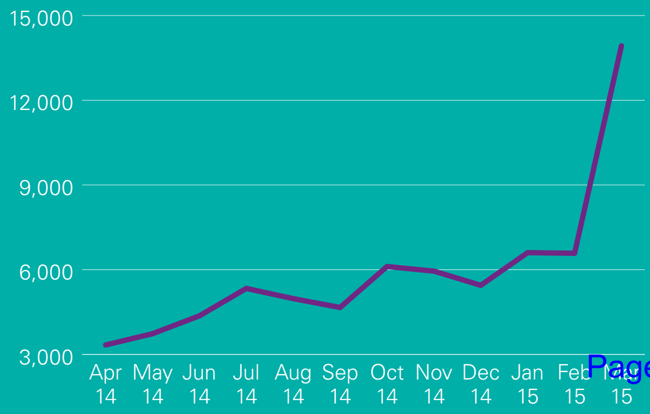
Employees on HR staff list but not paid in the year	1,616
Employees on transaction file as paid but not on HR master list	42





Case Study - Journals

Through the analysis of large amounts of data, valuable insights can be gained into the financial activities of the organisation.



Journals posted on weekends and bank holidays	
Total number of journals	7,396
Total debit value of journals	£4,412,019,839.78
Total number of journals posted by users on weekends and bank holidays	23
Journals posted on weekends and bank holidays as a proportion of total journals (by number)	0.30%
Total value of journals posted by users on weekends and bank holidays	£5,051,889.92
Journals posted on weekends and bank holidays as a proportion of total journals (by total value)	0.10%

Staffing

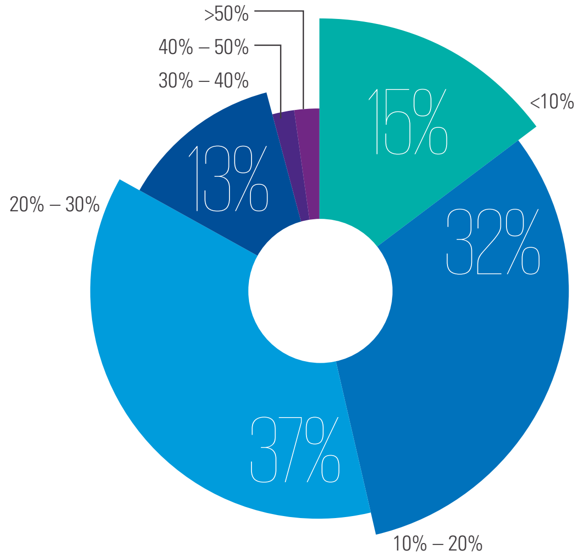
The size of internal audit teams is relatively small, with 47% of authorities indicating that the internal audit team consisted of five or fewer full time equivalents and only 15% indicating that the team consisted of over ten. This reflects, at least to some extent, the prevalence of in-house internal audit teams which are dedicated to the provision of services to single authorities.

Despite the small sizes of some audit teams, the split between management and non-management appears to be at an appropriate level, with only 17% indicating that over 30% of the staff were in management positions. There were, however, 2% of respondents who indicated that over half of the internal audit team were in a management position. This related to vey small internal audit teams, however.

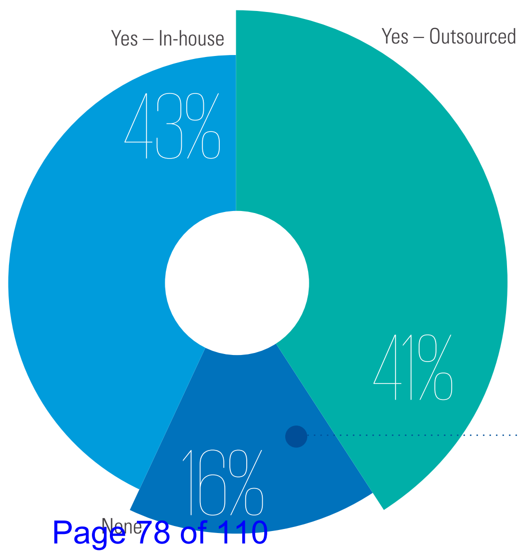
Maintaining an appropriate split between management and non-management will form an essential part of controlling staff costs and responding to funding reductions. It is, however, essential to maintain adequate management resource to ensure efficient oversight and governance.

Only 43% of respondents indicated that they had access to in-house IT expertise to support the completion of IT related audits. Just under one fifth of respondents stated that they had no IT expertise in any form. This is an area of significant risk given the increased reliance that authorities are placing upon IT systems and the growing prevalence of large scale integrated systems. In order to maintain the level of assurance required, authorities are likely to need to address this skills shortage within the near future.

Management proportion



IT audit expertise



"We don't have any IT specialists in-house and so far none of our IT audits have been sufficiently technical to require them."

Based upon our survey results, all Heads of Internal Audit have a relevant qualification to support the delivery of their role, with 67% holding CCAB membership. This is in line with our expectation and represents a clearly positive message for the sector.

In addition, the level of qualifications held by audit team is also relatively high, with 43% of authorities indicating that over half of the audit team consists of qualified accountants. There are still, however, a number of authorities who indicated that only a minority of staff were formally qualified.

The challenge for authorities moving forwards will be two-fold:

- It may be increasingly difficult to maintain this level of qualification as ongoing funding reductions continue to create the need to shrink staff costs.
- The drive towards increase risk based audit, and the adoption of data analytics, will result in changes to the desired skill mix in internal audit teams.

The effective management of these factors will be key to ensuring that the quality of provision is maintained.

From our interviews, we identified that many authorities do not currently operate a qualification programme on an ongoing basis. This reflects the fact that many of the internal audit teams have been consistent in terms of membership over recent years (subject to reductions in staffing levels). This is likely to need to be reconsidered in future years as authorities seek to recruit new staff, or train existing staff, in order to facilitate changes in the nature and focus of work.

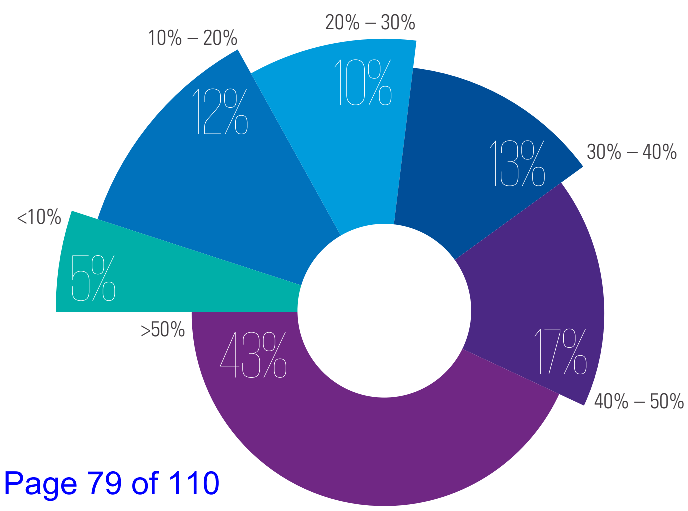
Internal audit providers will need to carefully monitor and assess both the existing skills mix and the required areas of expertise in order to ensure that they are capable of meeting the demands of individual authorities and delivering the level of service required.

"Many staff currently only have an AAT qualification which they have allowed to lapse. I would expect this to change though as we move to a more risk based approach and the maintenance of qualifications becomes more critical."

Audit Committee Question Prompts

- How are you ensuring that internal audit staff are appropriately qualified and receive the right level of training going forward to support the delivery of the internal audit plan?
- How does the internal audit provider identify the required level of training and the appropriate staff mix?
- What areas of specialist skill are required to deliver your internal audit plan and are you confident that such skills are available?
- To what extent is the authority reliant upon automated controls incorporated within IT systems and what level of assurance are you receiving in relation to these controls?

Qualified staff proportion



Page 79 of 110

Feedback mechanisms

The Public Sector Internal Audit Standards (PSIAS), effective as of 1 April 2013, require that internal audit providers are subject to external assessment of their compliance with those standards. This assessment should be undertaken at least once every five years with action plans being developed to address any identified area of deficiency. At the time of conducting our survey, however, only 23% of respondents had completed the assessment.

This assessment is a valuable indicator of the quality of the internal service and provides a clear indication of any individual areas where further improvements could be achieved. As such, we would expect it to be seen as a valued tool for internal audit providers, audit committees and management. Despite this, the result of our survey and interviews indicated that this was not always true and that some authorities were questioning the benefit to be obtained in comparison to the costs involved.

In contrast to this, our view is that when properly structured and undertaken, the external assessment will provide stakeholders with a detailed evaluation of the internal audit service. This will allow for any deficiencies in PSIAS compliance to be identified and appropriate action plans developed. Compliance with the PSIAS is not just a formality, it is a key driver towards ensuring a high quality of provision and the delivery of an internal audit service that adds real value to authorities' control environments.

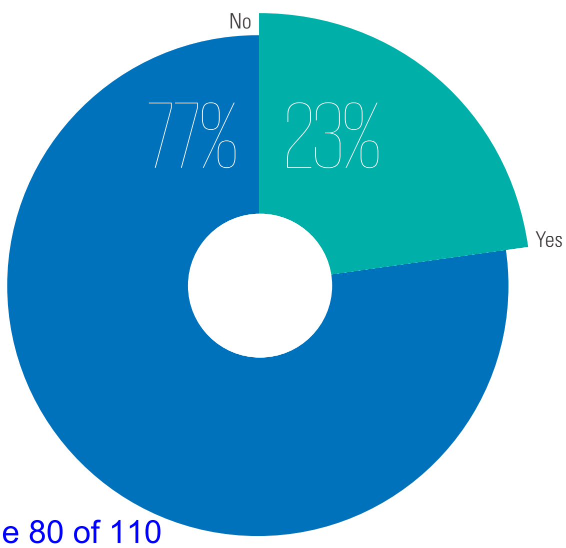
In order to ensure that the external assessment is of real value to individual authorities it is essential that it be:

- **Comprehensive** – In order to gain greatest benefit, the review should consider all elements of the PSIAS requirements and provide an honest assessment of the extent to which compliance has been achieved.
- **Pragmatic** – The recommendations coming out of the assessment must be workable and reflect the way in which the authority wishes to operate. There is no "one shape fits all" approach to internal audit and as such the external assessment must remain flexible.
- **Independent** – The assessment must be free of any bias (including perceived bias) to ensure that it provides the audit committee and management with appropriate and reliable assurance over the way in which the internal audit service is operating.

Of those authorities who have completed an assessment, 77% have opted to undertake this through a reciprocal arrangement consisting of a group of internal audit providers reviewing each others procedures. We understand that CIPFA have confirmed that this is an acceptable approach, although our view is that other approaches may provide more robust challenge. A key factor to consider here is the size of the pool of providers involved in the review. Where this is limited in number there is an increased risk that, at least from a perception basis, the desired level of independence may be eroded.

Of those authorities that have undertaken an external assessment, two thirds reported that the results indicated that no elements of non-compliance had been identified.

External assessment undertaken



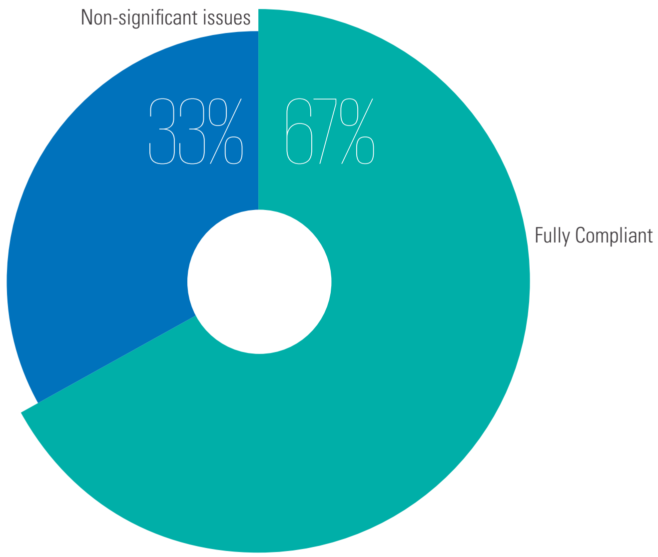
The remaining authorities indicated that only minor areas of non-compliance were identified. Given our own experience of local authority internal audit services, we would have expected a higher rate of non-compliance, especially during the first few years of PSIAS application. Whilst this is a welcome indication of the general high quality of internal audit provision in the sector, it is possible that the low number of issues identified is indicative of the assessments being undertaken with a lower level of critical scrutiny than we may have expected.

The identification of areas on non-compliance, especially in the first external assessment, should not be seen as indicative of a fatal flaw in the internal audit service. We would anticipate that some non-compliance would exist at many authorities and that the external assessment provides a summary of these so that appropriate actions can be taken.

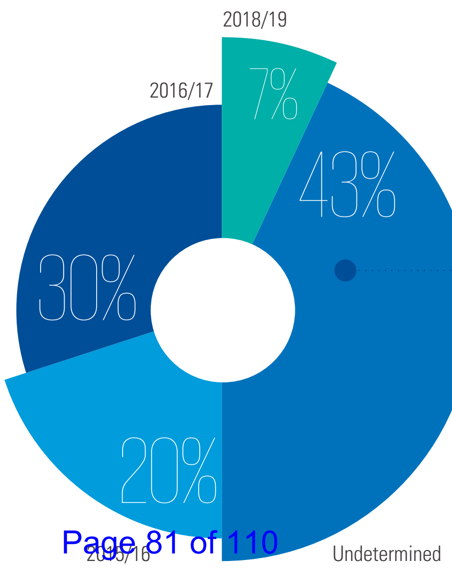
Of those authorities who had not undertaken an assessment, 43% had not yet determined when it will be undertaken. This in part reflects a desire to allow for new processes to become more fully embedded before they are formally tested.

Whilst this is an understandable desire, it is essential that authorities determine a timescale for the completion of these external assessments to prevent them being delayed indefinitely. Authorities are now into the third year of PSIAS application, and there is only a limited amount of time left in order to undertake the assessment in line with the required frequency of once every five years.

Results of assessments



Timing of future assessments



"We are delaying the external assessment as long as possible in order to allow us to fully embed the requirements of PSIAS but also because we are unsure as to how much benefit will be obtained"

Feedback mechanisms cont...

The formal external assessment of PSIAS compliance is only one measure of the effectiveness of the internal audit service and, to some extent, does not directly consider the way in which the service is viewed by the authority is serves. In order to gain an understanding of performance in this area, 89% of the survey respondents indicated that they undertake periodic customer satisfaction surveys.

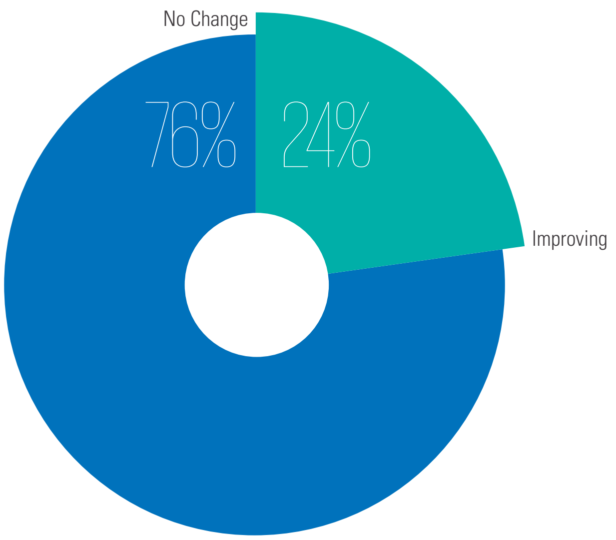
Whilst the exact nature of these surveys will differ between authorities, the aim is to gain an understanding of the way in which the internal audit is perceived and the extent to which it is meeting the expectations of its "customers". One of the key challenges however, is how to ensure the objectivity of responses so that the internal audit service can develop appropriate improvement plans.

Our survey results indicated that the level of satisfaction is currently very high, with 89% reporting that the average outcome was "very satisfied" and no authority indicating overall dissatisfaction.

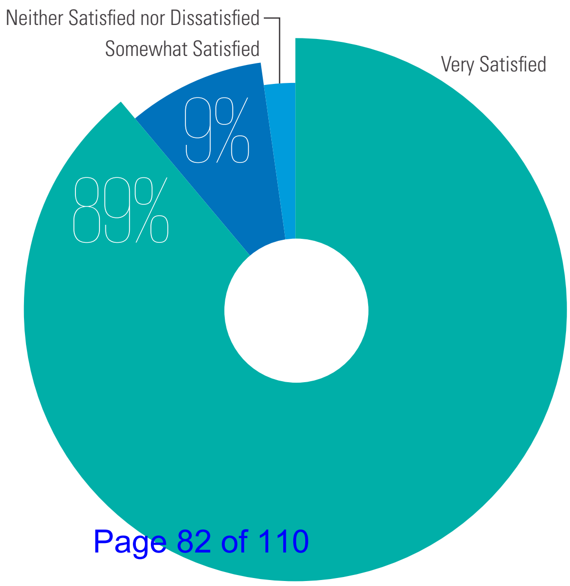
Our survey results also indicated that the levels of satisfaction have improved over the last three years for just under one quarter of authorities, with the remaining respondents indicating no change.

This improvement in satisfaction ratings may reflect the increased focus upon strategic risks resulting in officers feeling that the internal audit service provided a more relevant and valuable level of assurance. By focusing directly on these key risk areas, internal audit is more able to support officers' work and offer information which is of greater immediate utility and import

Progress made



Level of satisfaction



One council indicated that they were reducing the use of customer satisfaction surveys indicating that "the results are not of great use as they are frequently based upon personal preferences rather than objective measures."

Audit Committee Question Prompts

- [ ] What do you want to achieve through the external assessment of your internal audit service's compliance with the Public Sector Internal Audit Standards?
- [ ] When will this assessment be undertaken and are you comfortable with that timing?
- [ ] How will you ensure that the external assessment provides the authority with an output of real value?
- [ ] Are you happy that the external assessment is being undertaken in an independent and object manner?
- [ ] How will you ensure that enhancements recommended as a result of the external assessment are appropriately implemented and that these result in service improvements?
- [ ] How can the authority collect, and react to, customer satisfaction data in a manner which facilitates constant improvement in service delivery?

Tim Cutler

Partner
Local Government
t: + 44 (0)161 246 4774
e: tim.cutler@kpmg.co.uk

Darren Gilbert

Director
t:+ 44 (0)292 046 8205
e: darren.gilbet@kpmg.co.uk

Adam Bunting

Manager
t:+ 44 (0)117 905 4470
e: adam.bunting@kpmg.co.uk

Share your views and join the debate:

Visit us
kpmg.com/uk/ localgovernment

Email us
publicsectormarketing@ kpmg.co.uk

Engage with us
Follow us on Twitter **@ KPMGUK**

Nottinghamshire County Council

Report to AUDIT COMMITTEE

8 March 2017

Agenda Item: 9

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

KPMG – EXTERNAL AUDIT PLAN 2016/17

Purpose of the Report

1. To inform Members of the External Auditors' Audit Plan for their 2016/17 Audit.

Information and Advice

2. The attached report from KPMG sets out the proposed Audit Plan for the 2016/17 audit, including their approach, fees, key staff and timelines for the audit. The report is presented to Members for their information. The Audit Director (KPMG), Tony Crawley, and Sayeed Haris, the Audit Manager (KPMG), will be in attendance at the meeting to introduce the report and respond to Member's questions.

Other Options Considered

3. The report is for comment only.

Reason/s for Recommendation/s

4. To provide information to Members on the External Audit Plan 2016/17

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That Members receive, and comment upon, the External Auditor's Audit Plan for 2016/17.

Nigel Stevenson
Service Director – Finance, Procurement and Improvement

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

Constitutional Comments (23/02/2017 KK)

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

Financial Comments (10/02/2017 GB)

7. The anticipated total fees, excluding the indicative fee for grant claim certification, are £98,213 for Nottinghamshire County Council and £29,926 for the Nottinghamshire Pension Fund. This is in line with the initial proposal and budget provision is in place.

Background Papers and Published Documents

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

- None

Electoral Division(s) and Member(s) Affected

- All

External Audit Plan 2016/17

Nottinghamshire County Council and Nottinghamshire Pension Fund

February 2017

Contents

The contacts at KPMG in connection with this report are:

Tony Crawley
Director

KPMG LLP (UK)

Tel: 0116 256 6067
tony.crawley@kpmg.co.uk

Sayeed Haris
Senior Manager

KPMG LLP (UK)

Tel: 0116 256 6061
sayeed.haris@kpmg.co.uk

David Schofield
Assistant Manager

KPMG LLP (UK)

Tel: 0116 256 6074
david.schofield@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with. However, there are changes to the format of the Comprehensive Income and Expenditure account and Statement and the Movement in Reserves and the introduction of a new Expenditure and Funding Analysis for 2016/17.

Materiality

Materiality for planning purposes has set at £18.6 million for the Authority and £40 million for the Pension Fund respectively.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £930,000 for the Authority and £2 million for the Pension Fund respectively.

Significant risks

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

- Changes in the net pension liability due to LGPS Triennial Valuation;
- The preparation of Group Accounts for the Authority and its subsidiaries; and
- The application of the Authority's MRP policy.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- The 2016 CIPFA code on Local Authority Accounting changes to the formats and reporting requirements.

See pages 4 to 7 for more details.

Value for Money Arrangements work

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

- Medium term financial planning.

The risk assessment is an on-going process throughout the audit cycle, and we will report any additional VFM significant risks identified to the Audit Committee.

See pages 8 to 11 for more details

Logistics

Our work will be completed in four phases from December 2016 to September 2017 and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 13.**

Our team is unchanged from the 2015/16 audit:

- Tony Crawley - Director
- Sayeed Haris – Senior Manager
- David Schofield – Assistant Manager

More details are on **page 14.**

Our fee for the audit is £98,213 (2015/16: £98,213) for the Authority and £29,926 (2015/16 £29,926) for the Pension Fund, see **page 12**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

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

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

— *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and

— *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

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

Acknowledgements

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

Financial Statements Audit

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

Financial Statements Audit Planning → Control Evaluation → Substantive Procedures → Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 10 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our VFM risk assessment.

Risk Assessment → Identification of significant VFM risks → VFM audit work → Conclude → Reporting

Financial Statements Audit Planning

Our planning work takes place during December 2016 to January 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

Financial statements audit planning

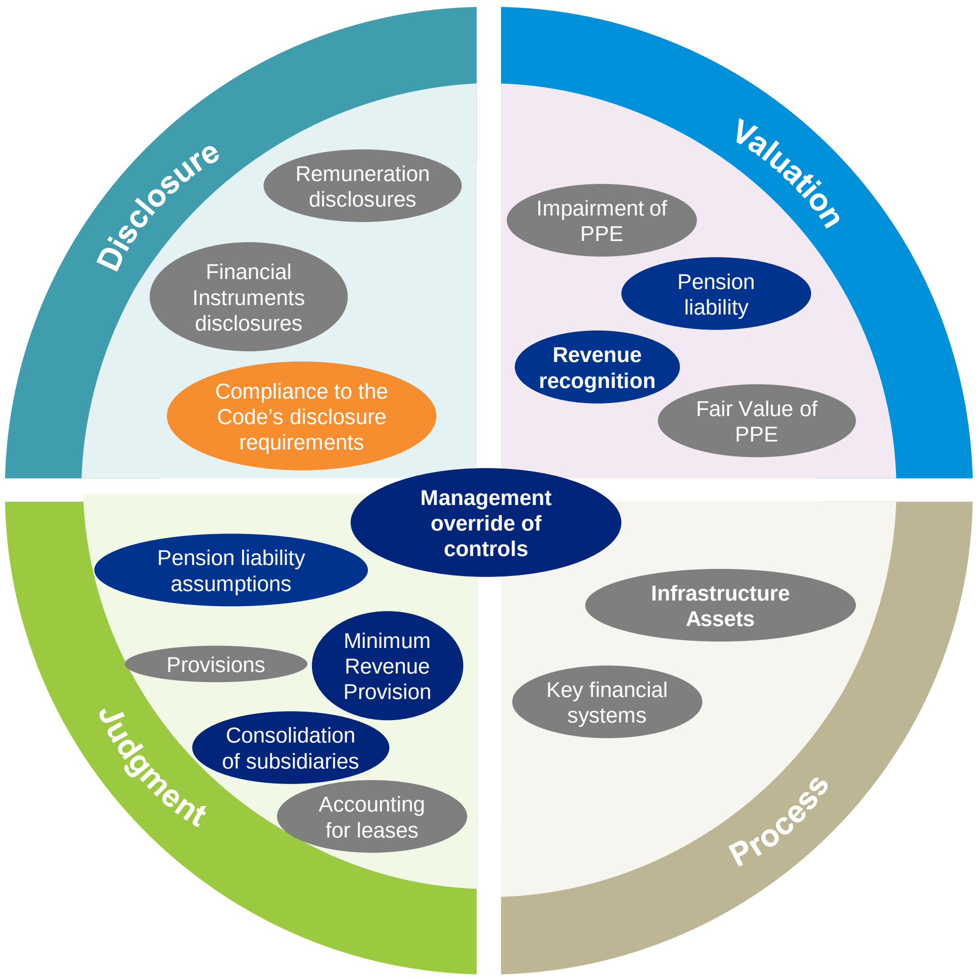
Risk assessment

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

— Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

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



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

Financial statements audit planning (cont.)

Significant Audit Risks Authority and Pension Fund

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

Risk : Changes in the pension liability due to LGPS Triennial Valuation

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

The pension valuation to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate, and that these inaccuracies affect the actuarial figures in the financial statements.

The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by many of the admitted bodies, whose pension liabilities represent a significant element of their balance sheet. This includes the Authority itself.

Approach : As part of our audit of the Pension Fund, we will undertake work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund.

If we receive specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the PSAA for this purpose. If the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund can consider recharging these costs to the relevant admitted bodies.

Significant Audit Risks

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

Risk : The preparation of Group Accounts for the Authority and its Subsidiaries

During 2016/17 the Authority has entered into arrangements with other bodies that give rise to the preparation of Group Accounts in addition to the Authority's year end financial statements.

In addition to the Authority, management have deemed the following subsidiaries and joint arrangements to be significant in the context of the Group Accounts:

- ARC Property Services Group Partnership; and
- Via East Midlands Ltd.

There is a risk that the subsidiaries or joint venture with the external body have not been identified correctly for the preparation of the Group Accounts and/or that they are not accounted for in accordance with the Code of Practice.

Approach : To support our audit work on the Authority's Group Accounts, we will:

- Assess the judgment to determine whether consolidation into the group accounts are required for the companies listed above;
- Seek to place reliance on the work of the firms who are the auditors to these subsidiaries and joint arrangements where the company is deemed to be a significant component of the Group. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements; and
- Review the consolidation in line with the Code of Practice.

We will report the following matters in our Report to those charged with Governance for significant components identified:

- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where our access to information may have been restricted; and
- Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

Financial statements audit planning (cont.)

Significant Audit Risks

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

Risk : Minimum Revenue Provision

The Authority revised its policy for the calculation of its Minimum Revenue Provision during 2015/16, as reported to the Full Council on 25 February 2016. This has an impact on the amount charged to the General Fund for the repayment of its external debt in future years.

As part of our 2015/16 audit we reviewed the revised policy to ensure that it was in accordance with statutory requirements. 2016/17 is the first year the revised policy will be applied.

The risk is that the updated policy has not been applied in line with the proposed changes.

Approach : We will review the application of the revised policy in the 2016/17 statements, to ensure that the amount charged to the General Fund is in accordance with the policy.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Disclosures associated with retrospective restatement of CIES, EFA and MiRS

During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its ‘telling the whole story’ project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Councils are funded and how they use the funding to serve the local population. Outcome of this project resulted in two main changes in respect of the 2016-17 Code of Practice (‘Code’) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note.

As a result of these changes, retrospective restatement of CIES (cost of services and MiRS) is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable Accounting Standards.

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year’s accounts, and we will need to review the restatement and presentation.

Approach: As part of our audit, we will:

- Assess how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and
- Review the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance.

Materiality

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

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

For the Authority, materiality for planning purposes has been set at £18.6 million for the Authority's accounts, which equates approximately to 1.5 percent of gross expenditure.

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

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

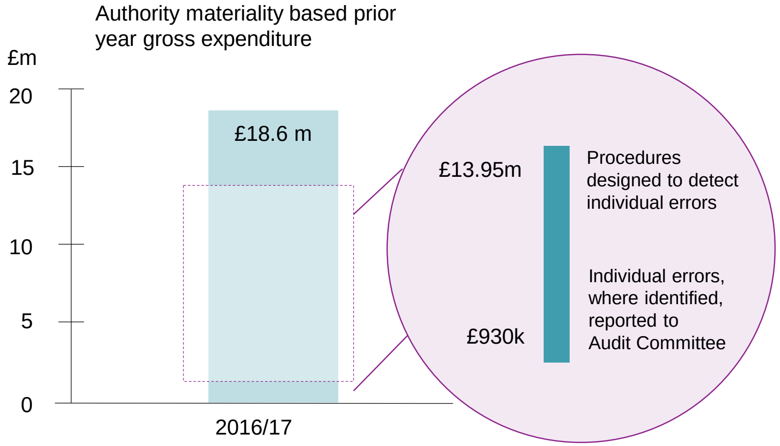
Reporting to the Audit Committee

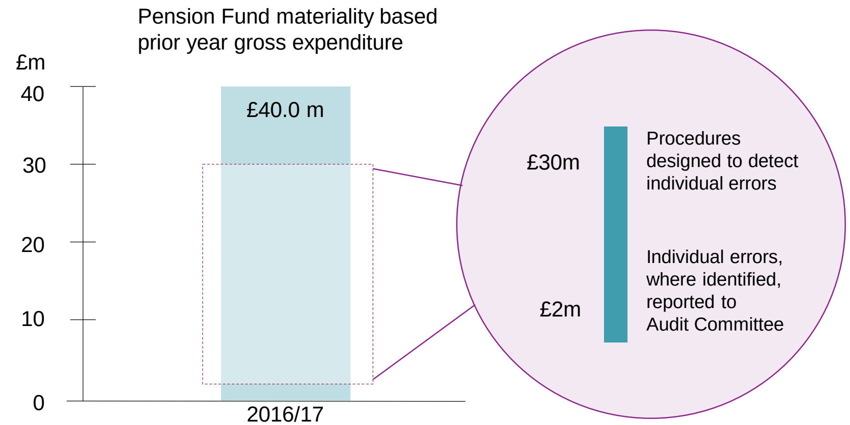
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £930,000. For the Pension Fund, the difference would be trivial if less than £2 million.

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





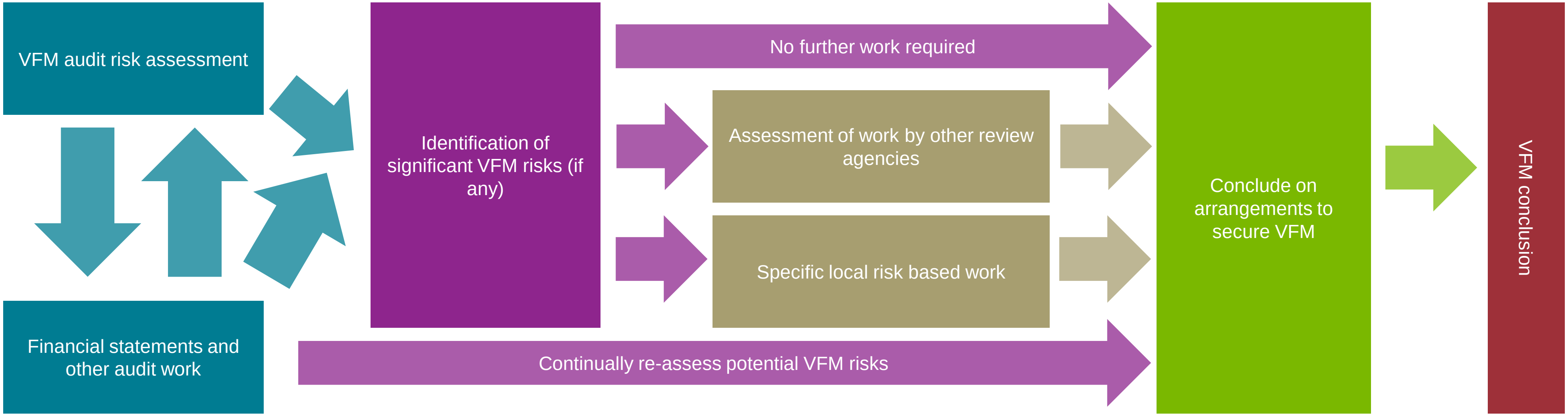
Value for money arrangements work

Background to approach to VFM work

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

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

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.



Value for money arrangements work (cont.)

Overall criterion

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

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

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

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies **and** **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We have completed our initial VFM risk assessment and have at this stage identified one significant VFM risk: - Medium term financial planning - The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. This is relevant to the sustainable resource deployment sub-criterion of the VFM conclusion. We will undertake the following procedures over this significant risk: ■ Review the arrangements for assuring delivery of the Authority's savings programme; ■ Review the delivery of the saving plans to date including any actions taken by the Authority where savings are not achieved in line with the plan; and ■ Evaluate the arrangements the Authority have in place in identifying further savings for future years. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

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

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

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

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

Our audit team

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

Reporting and communication

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

Independence and Objectivity

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

Audit fee

Our Audit Fee Letter 2016/17 presented to you in April 2016 first set out our fees for the 2016/2017 audit. The planned audit fee for 2016/17 is £98,213 (2015/16: £98,213) for the Authority and the planned audit fee for 2016/17 is £29,926 (2015/16: £29,926) for the Pension Fund. This letter also sets out our assumptions. We have identified significant audit risks and an other area of audit focus in this plan and will update the Authority if the fee needs to change to accommodate any additional audit work required in response to these matters.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Appendix 1: Key elements of our financial statements audit approach

Communication

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

Audit strategy and plan

ISA 260 (UK&I) Report

Annual Audit Letter

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

Audit workflow

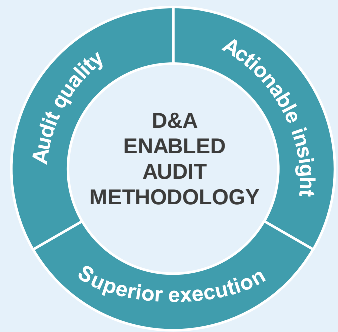
Initial planning meetings and risk assessment

Interim audit

Year end audit of financial statements and annual report

Sign audit opinion

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



Driving more value from the audit through data and analytics

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

— Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.

— Focus manual procedures on key areas of risk and on transactional exceptions.

— Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around journals, and potentially payroll.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Nottinghamshire County Council and Nottinghamshire Pension Fund audits in 2015/16.

Tony Crawley

Name	Tony Crawley
Position	Director
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Chief Executive.'

Sayeed Haris

Name	Sayeed Haris
Position	Senior Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Tony Crawley to ensure we add value. I will liaise with the Service Director – Finance, Procurement and Improvement and other senior managers.'

David Schofield

Name	David Schofield
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants. I will also be the day to day contact for the Finance team during the audit.'

Appendix 3: Independence and objectivity requirements

Independence and objectivity

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

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

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

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

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

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

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

Confirmation statement

We confirm that as of February 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Nottinghamshire County Council

Report to Audit Committee

8 March 2017

Agenda Item: 10

REPORT OF CORPORATE DIRECTOR, RESOURCES

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme for 2017/18.

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

Report Title	Brief summary of agenda item	For Decision or Information	Lead Officer	Report Author
14 June 2017				
Annual External Audit Fees	To inform Members of proposed external audit fees for 2017/18	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Mandatory Inquiries	To provide information on the External Auditors' requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit.	Decision	Nigel Stevenson	Nigel Stevenson
Internal Audit Report 2016/17	Report of the Head of Internal Audit providing an internal audit opinion on the Authority's level of internal control during 2016/17	Information	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

? September 2017				
External Audit Annual Governance Reports	To receive for information, and comment, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Follow up of Internal Audit Recommendations	To provide information on the Internal Audit's high priority recommendations	Information	John Bailey	John Bailey
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey
? December 2017				
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
? March 2018				
Statement of Accounts 2017/18 – Accounting Policies	To outline proposed changes to the accounting policies used for the Authority's Statement of Accounts for 2017/18 for review and approval	Decision	Nigel Stevenson	Glen Bicknell
Internal Audit Plan for 2018/19	Report from the Head of Internal Audit providing details of the planned work for 2018/19	Information	John Bailey	John Bailey
External Audit Plan 2017/18	To provide information on the External Auditors' Audit Plan for their 2017/18 Audit.	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Certification of Grants and	To provide information on the External Auditors'			

Returns 2016/17	Annual Report 2016/17 on the certification of Grants and Returns	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