



NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 25 April 2014

Time: 10.30 am

Place: LB31-32 - Loxley House, Station Street, Nottingham, NG2 3NG

Councillors are requested to attend the above meeting to transact the following business

Deputy Chief Executive, Corporate Director and Chief Finance Officer

Constitutional Services Officer: Catherine Ziane-Pryor **Direct Dial:** 0115 8764298

AGENDA

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IF YOU NEED ANY ADVICE ON DECLARING AN INTEREST IN ANY ITEM ON THE AGENDA, PLEASE CONTACT THE CONSTITUTIONAL SERVICES OFFICER SHOWN ABOVE, IF POSSIBLE BEFORE THE DAY OF THE MEETING

CITIZENS ATTENDING MEETINGS ARE ASKED TO ARRIVE AT LEAST 15 MINUTES BEFORE THE START OF THE MEETING TO BE ISSUED WITH VISITOR BADGES

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at Loxley House on 28 February 2014 from 10.30am to 1.05pm

- ✓ Councillor Sarah Piper (Chair)
- ✓ Councillor Thulani Molife (Vice Chair)
- ✓ Councillor Mohammad Aslam
- Councillor Georgina Culley
- ✓ Councillor Michael Edwards
- ✓ Councillor John Hartshorne
- ✓ Councillor Toby Neal (minutes 36-44 inclusive)
- ✓ Councillor Roger Steel
- Councillor Malcolm Wood

✓ indicates present at meeting

Colleagues, partners and others in attendance:

- | | | |
|------------------|----------------------------------------------------|-------------------------|
| Laura Catchpole | - Policy Officer | - Chief Executives |
| Alison Michalska | - Corporate Director for Children and Families | - Children and Families |
| Paul Hutchings | - Audit Manager |) |
| Sue Sunderland | - Audit Manager |) KPMG |
| Alistair Cowen | - Auditor |) |
| Shail Shah | - Head of Internal Audit |) |
| Simon Burton | - Risk Manager |)Resources |
| Barry Dryden | - Senior Finance Manager |) |
| Chris Common | - Organisational, Planning and Performance Manager |) |
| Pete Guest | - Treasury Manager |) |
| Glyn Daykin | - Assistant Treasury Manager |) |
| Catherine Pryor | - Constitutional Services |) |

31 APOLOGIES FOR ABSENCE

Councillor Malcolm Wood (Other Council Business)
Councillor Georgina Culley

32 DECLARATIONS OF INTERESTS

Although no declarations were declared at this point in the meeting, during consideration of agenda item 'Strategic Risk Register 2013/14 - Quarter 3 (minute 37), Councillor Thulani Molife asked the Committee to note that he has previously undertaken inspections of schools, although he wasn't required to declare this as an interest.

33 MINUTES

The minutes of the meeting held on 29 November 2013 were confirmed and signed by the Chair.

34 EXTERNAL AUDIT PLAN 2013/14

Sue Sunderland, Paul Hutchings and Alistair Cowen of the External Auditors KPMG attended the meeting to present the plan and drew the Committee's attention to the 'Headlines' section, highlighting the following points:

- (a) the approach of KPMG remains the same as the previous year and was carried out in four stages agreed with the Senior Finance Manager;
- (b) the audit strategy and plan remain flexible and the initial assessments will be reviewed throughout the year with any new risks being responded to accordingly;
- (c) an initial risk assessment for the financial statements audit identified LGPS triennial valuation as a significant risk;
- (d) other areas requiring audit focus include the new ledger system (Oracle) and the new shared services (East Midlands Shared Services);
- (e) within value for money, the Council's arrangements for securing financial resilience of its financial standing, including the medium term financial plan, were identified as a risk;
- (f) there has been a change in team members and Kay Meats is now the main point of contact for all on site work;
- (g) the main year end audit is scheduled to start on 30 June 2014 and the results will be reported to the Committee in September as 'Report to Those Charged with Governance';
- (h) the planned fee for the 2013/14 audit, as set out in the Audit Fee Letter 2013/14, remains £228,420.

Colleagues responded to questions and comments from the Committee as follows:

- (i) testing of the Oracle system is due to start on 10 March as part of the Annual Audit. Internal Audit have been involved in the transition process but now external auditors will examine the past twelve months of the transition;
- (j) there has been concern regarding the accounts payable, as it is a three way mechanism involving purchase, invoice and goods received. However, following thorough testing, it was found that the Council is only paying for the goods ordered;
- (k) in relation to areas of change which may present a risk, such as the bedroom tax and local procurement, External Auditors purely focus on what arrangements the Council has in place in preparation and do not have the remit to investigate such points in detail unless specific issues arise or they are requested to do so;
- (l) where global risks are assessed, there is no indication that any issues would arise for the Council.

RESOLVED to note the External Audit Plan 2013/14.

35 CERTIFICATE OF GRANTS AND RETURNS 2012/13

Sue Sunderland of KPMG presented the report which has now been finalised, issued and is unchanged from the draft version supplied with the agenda.

The following points were highlighted:

- (a) an unqualified certificate was issued for 'National Non Domestic Rates Return';
- (b) three qualified certificates were issued for;
 - Housing and Council Tax Benefit;
 - Pooling of Housing Capital Receipts;
 - Teachers' Pensions Returns';
- (c) one minor adjustment was required on Housing and Council Tax Benefit;

Colleagues responded to questions and comments from the Committee as follows:

- (d) Teachers' pensions are only paid to central Government and central Government pays the teachers;
- (e) Housing and Council Tax Benefit is the most complicated of the three certificates issued in that a local authority of Nottingham's size with the number of claims placed produces an inherent risk of errors;
- (f) there will be on-going checks during this year so KPMG will be working closely with the Head of Revenue and Benefits.

RESOLVED

- (1) to record the Chair's thanks to KMPG representatives for their work and attendance;**
- (2) to invite the Head of Revenue and Benefits to a future meeting to explain what mechanisms have been implemented to ensure that errors are kept to an absolute minimum.**

36 PROTECTING THE PUBLIC PURSE 2013

Shail Shah, Head of Internal Audit, presented the Audit Commission report which outlined how Nottingham City Council's fraud levels compared to metropolitan districts and unitary authorities of the West Midlands, East Midlands and East of England regions.

The following points were made:

- (a) Fraud in England costs local government £2 billion per year;
- (b) Nationally 107,000 fraud cases were detected during 2012/13 with a value of £178 million. This consisted of £120 million of Housing Benefit and Council Tax Benefit, £19.5 million of Council Tax discount and £38.5 million of 'other' fraud;
- (c) the number of detected fraud has fallen by 14% since 2011/12 but the value of that fraud has only decreased by 1%;
- (d) detected fraud is indicative, not definitive of counter fraud performance;
- (e) no detected fraud does not mean that fraud was not committed;

- (f) if fraud is looked for in the right way it can be found;
- (g) excluding housing fraud, Nottingham City Council detected 1,495 cases of fraud, valued at £1,070,990 in 2012/13. Detection in other councils ranged from just over 3,500 cases to approximately 100 cases, ranging in value from £100,000 to over £4,500,000.

Mr Shah responded to the Committee's questions and comments as follows:

- (h) Internal Audit will consider and monitor the controls in place and then focus on the areas where most cases arise;
- (i) good practice is shared with other councils but it is not possible to identify the individual councils against the individual results presented in the report;
- (j) It is predicted that the way Council's report Blue Badge fraud is not consistent in detail. The Nottingham figure does not solely relate to stolen or counterfeit badges but fraudulent or incorrect use. Of the 355 recorded cases of Blue Badge fraud, there were 2 prosecutions and 250 penalty charge notices issued;
- (k) there are good control measures in place for detecting Housing Benefit and Council Tax Benefit fraud and the level of detected fraud is to be expected. Once the instances of Council Tax single person discount fraud is deducted, the general fraud figures are significantly reduced;
- (l) This report shows Nottingham compares very well against its peers and the City Council has robust counter fraud mechanisms in place.

RESOLVED

- (1) to note the report;**
- (2) to request Shail Shah, Head of Internal Audit, to arrange an elected members closed training session on Social Housing and Right to Buy fraud.**

37 STRATEGIC RISK REGISTER 2013/14 - QUARTER 3

Simon Burton, Corporate Risk Specialist, and Alison Michalska Corporate Director for Children and Families, were in attendance.

Alison Michalska, presented a critical appraisal in response to the Committees request to consider Strategic Risk 12a, 'Failure to provide the best educational outcome for children and opportunities for young people to access further education and skills training to contribute to the economic wellbeing of the City'. She made the following points:

- (a) of the 7 secondary schools which Ofsted had recently inspected, all 7, consisting of maintained and independent schools, were considered inadequate. A major review of education in Nottingham will be carried out by a Challenge Group;
- (b) it is important for the future and wellbeing of our young people that education is improved as they are the workforce of the future;
- (c) this year, key stage 4 pupils achieved the best ever results within the city with 70-80% of pupils at 4 city schools achieving GCSE qualifications. When

- considering the cohorts of children in city schools, it is unlikely that some schools will achieve this level;
- (d) it is important that children improve and progress and not just achieve a certain standard, including pupils with the most complex needs such as those with learning disabilities;
 - (e) Ofsted commented that Nottingham city school children are not achieving at the same level as pupils attending schools in other Core Cities and that the quality of some teaching is a weakness;
 - (f) attracting quality teachers to city schools and also retaining them must be achieved. Incentives could be considered, including the level and quality of support and what the city as a whole can offer. For newly qualified teachers, one of the main issues is the level and quality of support, including mentoring, offered to them in their first year, but also beyond. This is something which the Challenge Group is considering;
 - (g) attendance and behaviour are important issues across the whole city with attendance sometimes linked to low level behavioural issues. Colleagues are now exploring whether such behaviour is influenced by a particular culture. This will include investigating how low level disruption at school may be linked to crime, and disrespectful and aggressive behaviour. The influence of parents will also be considered as well as how to address the issues and how to motivate a fundamental shift of attitude in some families;
 - (h) truancy is not often the main reason for pupil absences, rather it is some parents allowing their children to stay home from school as they do not consider their children's school attendance to be of much value. It is important to appropriately challenge this attitude and support parents to get their children to school;
 - (i) healthy diets for children and families are to be encouraged within the 'Small Steps, Big Changes' programme, but not all pupils in the failing schools have a restricted diet and this presumption must not be made;
 - (j) the 'Challenge Board', set up following the Ofsted inspection, is driving improvement in not just the 7 inspected schools in the city, but all city schools which are in special measures;
 - (k) the Challenge Board has, according to its remit, expressed its commitment to improve education for all city children, regardless of which school they attend to Ofsted and Department for Education (DfE);
 - (l) Nottingham city schools need to employ the best quality Head Teachers that can be afforded and ensure that between the Head Teachers and the Governors, there is a strong governance structure in place;
 - (m) the value of governors is recognised so to help build and develop the role, improved governor training is required to ensure that all governors are aware of what to look for and are able to ask relevant questions to identify emerging or potential issues;
 - (n) since the inspection of the academies, two have made excellent progress but one is making very slow progress so the DfE is considering taking action;
 - (o) the Challenge Board has commented that becoming an academy is not the solution to being placed in special measures;
 - (p) Academies do not have to employ qualified teachers but Ofsted is trying hard to change this and it is hoped that academies will embrace what is found to be best practice;
 - (q) it is a concern that nationally, 67% of current Head Teachers are aged 50 years or over - this could potentially result in a void;

- (r) Ofsted does not want to re-inspect the seven schools until they are ready to be judged as 'good'. The ambition is that all schools will achieve 'good' or better within the next 2 years. Work continues with the Challenge Board and Ofsted to ensure that this is achieved.

Members of the Committee made the following points:

- (s) social and economic factors play a large part in pupil's attainment, as does the social and cultural attitude of parents in choosing or rejecting certain schools for their children;
- (t) the quality of teaching and leadership are the two of the most important elements for schools. If quality teachers cannot be attracted to the city, then the reasons for this need to be examined. The Work Place Parking Levy may contribute to deterring new teachers;
- (u) progress is being made to readdress some of the cultural attitudes towards education in the city, including behaviour and attendance, but in doing this, it is vital that schools and parents support each other.

It was noted that Strategic Risk, SR29, the 'Public Health Risk', 'failure to establish an effective Public Health function with adverse impact on the citizen wellbeing and a failure to deliver the authority's statutory responsibilities', which the Committee resolved to consider at this meeting, is deferred to the next Risk Register 2013/14 update.

RESOLVED

- (1) to note the Committee's review of SR12a - Failure to provide the best educational outcome for children and opportunities for young people to access further education and skills training to contribute to the economic wellbeing of the City;**
- (2) to note the progress made on reducing the seriousness of the Council's strategic risks as reflected by their threat levels and Direction of Travel (DoT) for Q3 2013/14;**
- (3) to note the results of the review of the Strategic Risk Register by the Corporate Leadership Team;**
- (4) to consider SR29, 'failure to establish an effective Public Health function with adverse impact on the citizen wellbeing and a failure to deliver the authority's statutory responsibilities' as part of the SRR Q4 2013/14 Update at the next meeting.**

38 A REVISED PERFORMANCE MANAGEMENT FRAMEWORK FOR NOTTINGHAM CITY COUNCIL

Chris Common, Organisational Planning and Performance Manager, presented the report which asks the Committee to approve for adoption of the revised Performance Management Framework (PMF) for Nottingham City Council.

The new PMF:

- (a) is simpler, up to date and reflects prevailing good practice
- (b) aligns with the Council's commissioning cycle (Analyse, Plan, Do, Review/Revise)
- (c) sits within the context of Good to Great, Citizens at the Heart and the current external environment (policy, economic, demographic and financial)
- (d) Reflects the availability and use of Covalent as the corporate business management tool.

The revised PMF sets out the high level approach the Council will take to performance management, ensuring that all are:

- (b) clear about what to achieve, by when and by whom;
- (c) focussing resources and action on the right outcomes;
- (d) aware of how things are going;
- (e) reporting on progress – to both internal and external audiences;
- (f) able to quickly access effective support.

The revised PMF:

- (g) sets out the principles of our performance culture and how this can be sustained;
- (h) applies to all levels of Council activity;
- (i) defines the roles, responsibilities and reporting arrangements for all involved;
- (j) has a broad scope, which includes strategic business planning, risk management, workforce planning, performance appraisal (which has also been substantially refreshed) and performance monitoring and management at team, service, departmental and organisational levels;
- (k) has wider links to the Council's Transformation Portfolio.

RESOLVED

- (1) to approve for adoption the revised Performance Management Framework for Nottingham City Council;**
- (2) to receive an update on the implementation of the revised Performance Management Framework in one year's time.**

39 TREASURY MANAGEMENT 2014/15 STRATEGY

Pete Guest, Treasury Management Officer, presented the report which asked the Committee to consider, comment on and approve the Treasury Management Strategy 2014/15 prior to its consideration by Full Council on 3 March 2014.

This document sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place in the forthcoming year. Within this context, the objectives of the strategy are:

- to achieve the lowest net interest rate costs on the City Council's external debt, whilst recognising the risk management implications;

- to protect the Medium Term Financial Strategy (MTFS) from fluctuations in interest rates and to prevent the need for excessive borrowing in future years, when rates may be unfavourable;
- to maintain the security and liquidity of external investments, and within those parameters, to seek to maximise the return on such investments.

The main elements of the proposed strategy for 2014/15 are:

- Borrowing requirement and strategy
- Debt restructuring
- Debt repayment (Minimum Revenue Provision statement)
- Housing Revenue Account strategy
- Investment strategy
- Prudential indicators
- Risk Management Action Plan

Peter Guest added the following information:

- (a) investment is a risk internationally and while the Local Authority has considered UK banks to be financially sound, the governments of the UK, Europe and USA do not want to provide another bail out should the need arise, and so are working together on 'bail in' arrangements. If a bank is in trouble, then the first course of action will be for shareholders and investors to 'take a hit'. As retail deposits will be included in the regulations, there is a possibility that there could also be an impact on local authorities;
- (b) in 2012 Nottingham undertook a lot of advanced borrowing to fund the tram and also halved the level of investment. To try and keep Nottingham City Council's level of investment low, the Council is under borrowing and using 'surplus cash to finance the capital programme as this results in reduced risk;
- (c) there is an increase in local authority lending to local authority as they will get a better rate of return and central Government currently guarantees local authority debt.
- (d) other forms of protected investment will also be investigated, including covered bonds although there will be less money invested in the future.

Peter Guest responded to committee members' questions as follows:

- (e) the stock market is artificially high at the moment, central Government want to avoid a repeat of the 2008/09 crash and will be unlikely to provide more bail outs;
- (f) in relation to pension funds, a lot of money has been switched to bonds as these offer better protection but could, under the proposed plans, be subject to 'a financial hit';
- (g) the suggestions of the City Council's independent financial advisors, Arlingclose, are always considered and while they have provided a list of 'safe' counterparts, it is always the City Council's decision as to what suggestions are acted upon.

RESOLVED

- (1) **to note the proposed 2014/15 Treasury Management and investment Strategies;**
- (2) **to ask Peter Guest to circulate to committee members the latest list of eligible counterparties for investment as advised by the City Council's independent financial advisors Arlingclose.**

40 PARTNERSHIP GOVERNANCE - REMOVAL OF CASTLE CAVENDISH FROM THE REGISTER OF SIGNIFICANT PARTNERSHIPS

Laura Catchpole, Corporate Policy Team, introduced the report which asks the Committee to consider approving the removal of Castle Cavendish from the register of significant partnerships as they no longer fit the required criteria.

RESOLVED to approve the removal of Castle Cavendish from the Register of Significant Partnerships.

41 ANNUAL GOVERNANCE STATEMENT - PROGRESS MADE TO DATE ON ISSUES REPORTED 2012/13 AND PROCESS FOR PRODUCING 2013/14 STATEMENT

Shail Shah, Head of Internal Audit, presented the report which updated the Committee on the issues reported in the 2012/13 Annual Governance Statement (AGS) and outlined the process and timetable from February to September 2014 for producing the 2013/14 AGS.

Updates on issues included:

- Single Status;
- Central Government Review of Local Government Funding & Balancing the Council's Budget;
- Children in Care;
- East Midlands Shared Services;
- Nottingham Express Transit;
- Work Place Parking Levy;
- Icelandic Banks.

The process for producing AGS 2013/14 is outlined as follows:

- support throughout the process will be given by Internal Audit and the Head of Internal Audit;
- as a result of self assessment via customised questionnaires, targeted at the appropriate assurance givers and based on the Council's Code of Corporate Governance, a set of assurances will be obtained from the Leader of the Council, key colleagues including Corporate Directors, individuals with statutory roles, significant groups and significant partnerships;
- the questionnaires will be supported by advice and guidance from Internal Audit;
- completed questionnaires will be supplemented by other governance related information extracted from Council policies and strategies, internal and

- external assurance providers, Council, Board and committee minutes, and the annual review of governance arrangements in significant partnerships;
- the final AGS will be an account of the Council's governance arrangements and reflect the failings identified, note actions put in place to address them.
 - once approved the AGS will be published with the City Council's Statement of Accounts.

The Committee noted that of the £41.600 m deposited with Icelandic Banks, it is estimated that the City Council will recover £41.028 m.

RESOLVED

- (1) to note the progress made to date in addressing the issues reported in the 2012/13 Annual Governance Statement;**
- (2) to note the process and timetable for compiling and completing the 2013/14 Annual Governance Statement.**

42 INTERNAL AUDIT PLAN FOR EAST MIDLANDS SHARED SERVICES

Shail Shah, Head of Internal Audit, presented the report which outlined the work done by Internal Audit for East Midlands Shared Services (EMSS) and the Internal Audit Plan for EMSS.

RESOLVED

- (1) to note the progress on the 2013/14 audit work planned and completed to date;**
- (2) to note the proposed EMSS 2014/15 Audit Plan.**

43 INTERNAL QUARTERLY REPORT 2013/14- QUARTER 3

Shail Shah, Head of Internal Audit, presented the report which outlines the work of Internal Audit for the third quarter of 2013/14.

The performance of Internal Audit is either on or above target for 2013/14 and planned audits are all on track.

RESOLVED

- (1) to note the performance of Internal Audit during the third quarter period;**
- (2) to examine Building Compliance (Strategic Asset and Property Management within Development) and Fines Processing (Community Protection within Communities) at the Audit Committee Meeting scheduled for June / July 2014.**

44 AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PLAN

Shail Shah, Head of Internal Audit, introduced the report which detailed the functions of the Audit Committee and presented the Terms of Reference and proposed schedule of work for the following municipal year.

RESOLVED

- (1) to note the functions of the Audit Committee and the benefits arising from its existence;**
- (2) subject to the inclusion of resolutions made at this meeting, to note the Audit Committee work programme for 2014/15;**
- (3) to endorse the Terms of Reference for the Audit Committee.**

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AUDIT COMMITTEE – 25 April 2014

Title of paper:	INTERNAL AUDIT ANNUAL WORK PLAN 2014/15 AND THREE YEAR STRATEGIC PLAN	
Director(s)/ Corporate Director(s):	ACTING DIRECTOR OF STRATEGIC FINANCE	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Internal Audit 0115-8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To comment upon and endorse the Internal Audit Plan for 2014/15 and Internal Audit Three Year Strategic Plan 2015/16 to 2017/18	

1. REASONS FOR RECOMMENDATIONS

- 1.1. The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate internal audit function which should operate within codes of professional best practice.
- 1.2. The Committee’s terms of reference include the function of overseeing the work of Internal Audit (IA). Approval of the IA Plans gives the Committee the opportunity to understand the focus of audit resources and helps inform Committee’s understanding of the Council’s assurance, control and governance arrangements.
- 1.3. This report informs the Committee of the proposed work planned by IA and is designed to support the City Council’s Governance and Control Framework.

2. BACKGROUND

- 2.1 The IA Plan (**Appendix 1**) is produced annually and allocates audit resources throughout the year to review risks to the Council’s vision, values and strategic priorities. The construction of the Plan is informed by consideration of a range of factors including the Council Plan, the Council’s Risk Register, previous internal and external audit activity, emerging themes and priorities, professional networks, the Council’s transformation and improvement activity, and changes to national, local and regional policy. The Annual Plan contains capacity to adapt to accommodate new and unforeseen work as risks and priorities change and develop throughout the year.

- 2.2 **Annex A to Appendix 1 of this report** is a summary the IA Plan for 2014/15. Detailed plans are available for members of the Audit Committee or by request to the Head of Internal Audit (HoIA). The Plan is centred on the need to align audit activity to Council objectives and to meet the requirements of effective Corporate Governance, including the Annual Governance Statement (AGS).
- 2.3 The Internal Audit Strategic Plan is a three year plan updated annually to reflect changes in circumstance and risk affecting the authority. The Strategic Plan is risk based and is used to plan longer term service delivery and the application of audit resources to drive the Annual Plan. In addition the strategic plan includes strategic developments with a focus on commercialism. This planning mechanism helps to target resources to optimise coverage of risks to the delivery of the Council's objectives by focussing on the development of the IA delivery model, including the exploration of alternative methods of supply and the development of alternative markets. For example the service will constantly review its use of technology, and the use of joint or partnership working arrangements. The Strategic Internal Audit Plan 2015/16 to 2017/18 is shown as **Annex B of Appendix 1**
- 2.4 The HoIA meets with colleagues from Departmental Leadership Teams to consider their plans and the implications of these. Where possible, departmental priorities are incorporated to enable Corporate Directors to provide assurance for the AGS.
- 2.5 The work of the service will be conducted in accordance with the standards set out in the Public Sector Internal Audit Standards 2012 (PSIAS). These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework and promote improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

3. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

4. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

- The Accounts and Audit Regulations 2011
- Public Sector Internal Audit Standards 2012

Internal Audit Plan And Three Year Strategic Plan

1. Introduction

This document contains the operational Internal Audit Plan for 2014/15 (Annex A) and the three year Strategic Plan 2015/16 to 2017/18 (Annex B)

2. Background

2.1. The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate Internal Audit (IA) service which should operate within codes of professional best practice.

2.2. The Chartered Institute of Internal Auditors (CIPFA) and the Institute of Internal Auditors (IIA) have developed a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector.

2.3. The PSIAS definition of IA is as follows:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

2.4. The PSIAS affirm the need for “risk based plans” to be developed for IA, stating that the “Chief Audit Executive” must “establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals” They refer to the need for the Plan to reflect the assurance framework, risk management arrangements and input from management and “the board”, which for the Council is interpreted to be the Audit Committee.

2.5. Consequently IA is recognised as an integral part of the Council’s Corporate Governance Framework giving assurance which complements that given by external review bodies including that given by external auditors.

3. The Role of IA

3.1. IA is an independent, objective assurance and consulting activity designed to promote the highest levels of financial management and probity across the Authority.

3.2. A key factor in the effectiveness of IA is that it is seen to be independent. To ensure this independence, IA operates within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation from line operations.

3.3. Each audit or piece of work undertaken has a clear scope and objectives. Any audit undertaken within the Council and its partners is conducted under the framework of an agreed audit programme, service level agreement or a clearly defined letter of engagement. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs are clearly defined and the independence of auditors maintained.

3.4. The IA Service requires unrestricted coverage of the Authority's and its partners' activities and unrestricted access to all records and assets deemed necessary to fulfil this function. In addition, the Head of Internal Audit (HoIA) has unrestricted access to the Chief Executive, Councillors, Corporate Directors and all colleagues of the Council.

4. The Audit Planning Process.

4.1. IA work is co-ordinated with that of external review agencies to provide maximum audit coverage and to prevent duplication of effort where practical.

4.2. The work is targeted in order to address the key risks to the Council's strategic objectives and other priorities of the Council. The specific links between the Audit Plan and the Council's strategic priorities are shown in the last column of the Plan.

4.3. The unique value that the professional IA function provides to the Council is objective assurance on the effectiveness of the governance, risk management and internal control processes. Management colleagues are responsible for the strategic and operational elements of these processes but need independent assurance that they are operating effectively and advice in respect of their improvement.

4.4. IA also has an important role to support the Chief Finance Officer in the statutory responsibilities, which include:

- S151 Local Government Act 1972 – to ensure the proper administration of financial affairs.
- S114 Local Government Act 1988 – to ensure the Council's expenditure is lawful.
- Accounts and Audit Regulations 2011 – to ensure that an adequate and effective IA of the Council's accounting records and of its system of internal control is undertaken in accordance with the proper practices in relation to internal control.

4.5. IA also helps the Council to achieve its key priorities. The service does this by helping to promote a secure and robust internal control environment which enables a focus to be maintained on these key priorities.

4.6. Accordingly the Audit Plan has been devised following a risk based approach using the following sources:

- The Corporate Risk Register and the requirements of Council objectives
- Consultations with Directors, senior officers and meetings with Department Leadership Teams.
- The requests of the external auditor (KPMG)
- Meeting with partners, particularly East Midlands Shared Services
- Requirements of the Chief Finance Officer (S151 Officer)
- Review of the External Audit and other independent Inspections' reports
- IA Risk Model informed by cumulative audit knowledge and experience and meetings with senior colleagues
- Engagement with Core Cities Heads of Audit
- Professional judgement on the risk of fraud and error

4.7. The Council continues to go through a period of radical change giving rise to significant changes to financial and colleague resources available. Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (threats). The reduction in the workforce for example provides opportunity for a breakdown in control as well as an opportunity to improve service delivery.

4.8. Substantial transformational changes are taking place in the design, commissioning and delivery of services. Delivering business as usual and achieving key priorities remains a key challenge for the Council and these are reflected in the IA Plan.

4.9. IA will continue deliver work on the core financial systems and a number of proactive anti-fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error. However, the IA Plan incorporates some flexibility to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified.

4.10. Drawing on the available sources of information the Plan has been drafted to balance the following:

- The requirement for External Audit to place reliance on IA work in forming its opinion on the Council's financial statements
- Key financial systems including those operating within East Midlands Shared Services
- The requirement to give an objective and evidence based opinion on all aspects of governance, risk management and internal control
- The corporate strategic vision wherein IA seeks to add value through improving controls and streamlining processes
- The allocation of time required for responding to queries on control issues
- The allocation of time required for responding to fraud queries
- The need to fulfil the assurance requirements of the Audit Committee

4.11. Nottingham City Council IA Plan 2014/15 (**Annex A** to this report) is summarised below. The detailed plan is available from the Head of Internal Audit on request

4.12. The Internal Audit Strategic Plan (**Annex B**) is a three year plan updated annually to reflect changes in circumstance and risk affecting the authority. This plan is risk based and is used to guide longer term service delivery models and the application of audit resources to drive the Annual Plan.

4.13. Accordingly the strategic plan includes strategic developments with a key focus on commercialism. This planning mechanism helps to target resources to optimise coverage of risks to the delivery of the Council's objectives by focussing on the development of the IA delivery model, including the exploration of using new technology and the use of joint or partnership working arrangements

4.14. Illustrations 1 and 2 show summaries of the 2014/15 plan by activity and main client / function respectively

Illustration 1: Analysis of 2014/15 Plan by type of activity

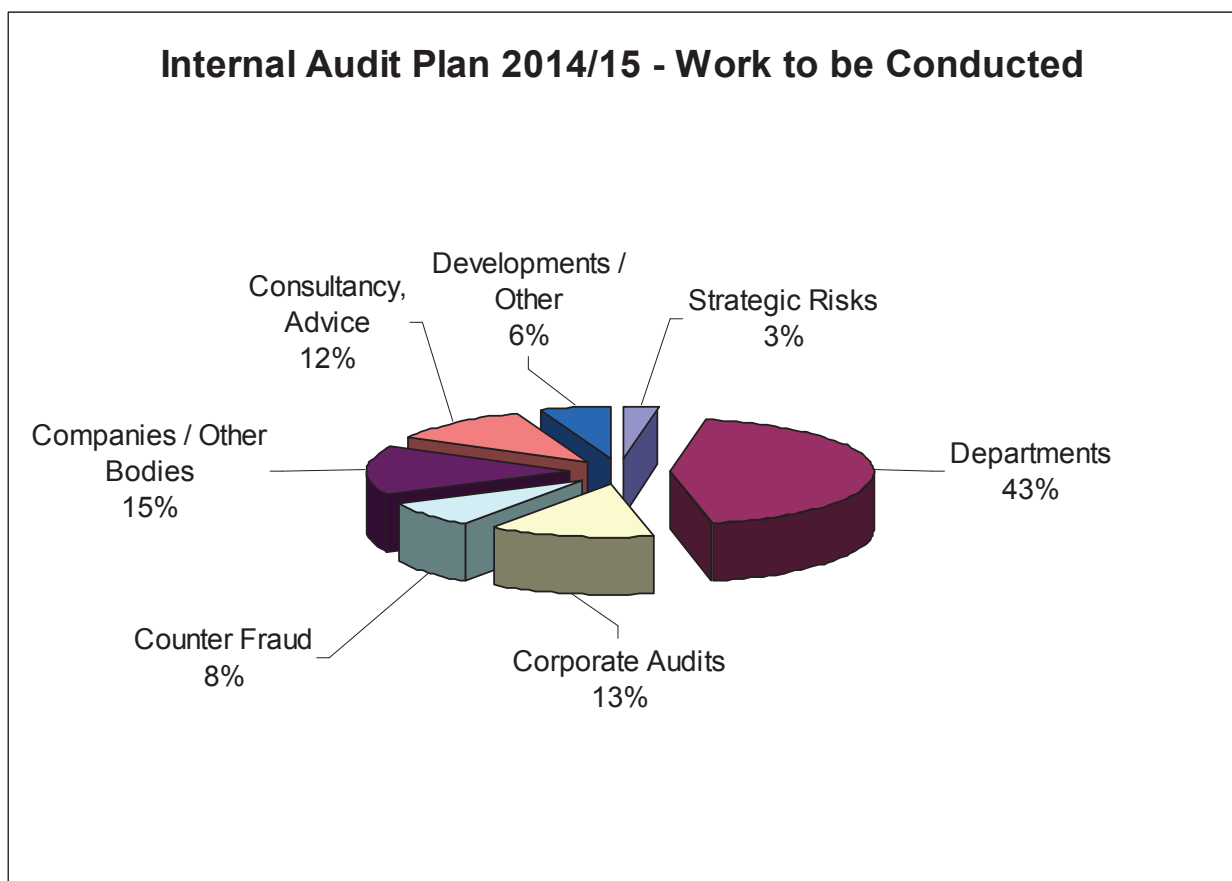
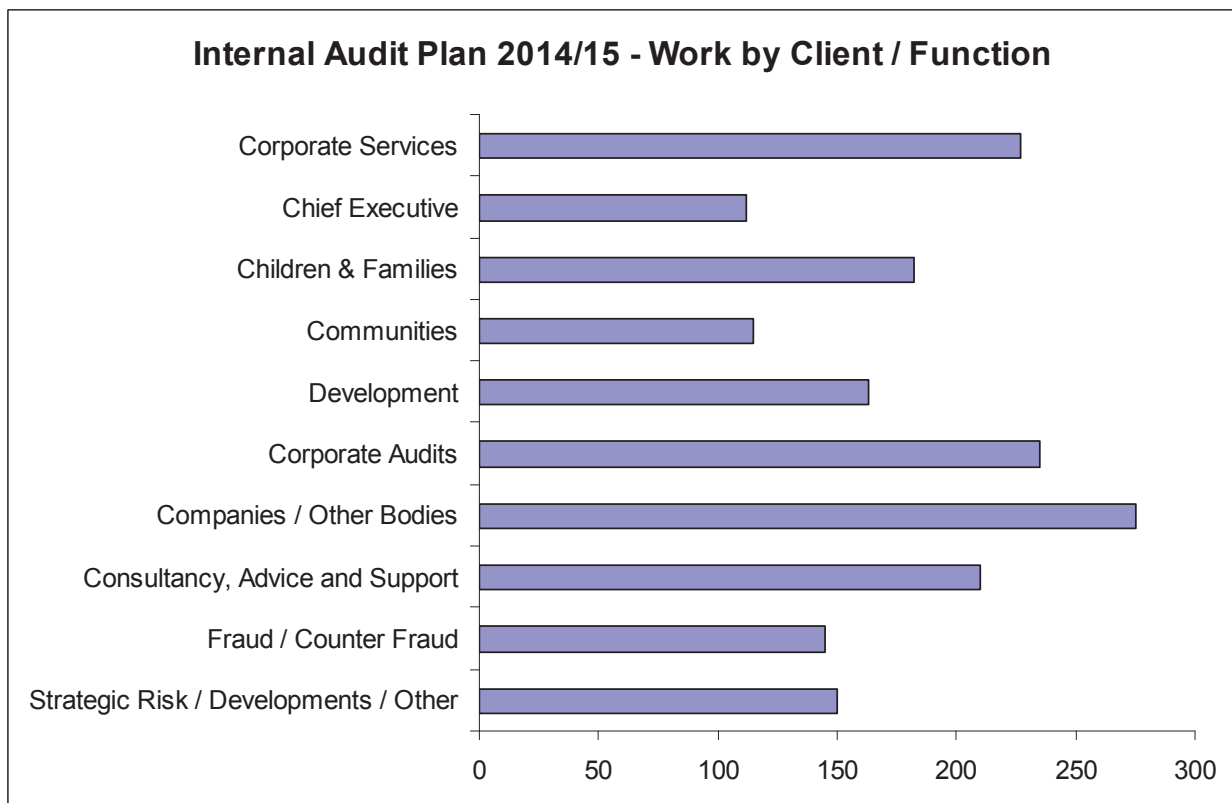


Illustration 2: Summary of the 2014/15 Plan by department / client



5. Standards

5.1. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place and is ISO9001:2008 accredited. It has adopted the standards contained in the PSIAS and has fulfilled the requirements of the Account & Audit Regulations 2011 and associated regulations in respect of the provision of an IA service.

5.2. The City Council's Audit Committee receives regular monitoring reports of work undertaken against the Plan. The Committee scrutinises the work undertaken at both Plan and individual audit level, and monitors the actions taken by departments in respect of the recommendations made. The work of IA will also inform the opinion of the Audit Committee in respect of the assurance and corporate governance arrangements in place.

Summary* of proposed 2014/15 Internal Audit Plan

Audit Title	Planned Days	NCC Priority / Objective
Strategic Risk Register	50	NP, TP, SR
Corporate Services	227	TP
Chief Executive	112	NP, TP
Children & Families	182	NP, TP, SR
Communities	115	NP, TP, SR
Development	163	NP, TP
Corporate Audits	235	TP, SR
Fraud / Counter Fraud	145	TP
Companies / Other Bodies	275	TP
Consultancy, Advice and Support	210	TP
Developments / Other Work	100	TP
Total Days	1814	

Key to NCC Priority / Objectives

NP - NCC Priorities

TP - Transformation Portfolio

SR - Strategic Risk

* The detailed plan is available from the Head of Internal Audit on request

Internal Audit 3 Year Plan - 2015/16 to 2017/18

Heading	Description of Audit	Risk Level	2015/16	2016/7	2017/18	Key NCC Priorities / Objectives
Strategic Risks						NP, TP, SR
	Review of evidence in place to mitigate risks. Coverage will vary over time depending on status of risks within the Strategic Risk Register	High	✓	✓	✓	
Chief Executive's Group						NP, TP, SR
	Partnerships (SR16a)	High	✓		✓	
	Corporate Communications	Medium		✓		
	Pensions	High	✓	✓	✓	
Departmental Risks - Children & Families						NP, TP, SR
	Coverage of emerging departmental risks identified by annual / quarterly assessment					
Schools & Learning	Housing Related Support (Supporting People)	Medium		✓		
	Foster Care and Adoption	High		✓		
	Schools assessments	Medium	✓	✓	✓	
	Commissioning	High	✓	✓	✓	
	Direct Payments	High	✓	✓	✓	

Heading	Description of Audit	Risk Level	2015/16	2016/7	2017/18	Key NCC Priorities / Objectives
	Joint Funding of Care	High	✓			
	Case Management	High	✓		✓	
	Children's Placements	Medium	✓		✓	
	Public Health (SR29)	High	✓			
	ContrOCC system	High	✓			
	Family Community Teams	Medium		✓		
	Safeguarding	Medium		✓		
	Care First	Medium	✓			
Allocation for CLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓	✓	
Departmental Risks - Communities						NP, TP, SR
	Coverage of emerging departmental risks identified by annual / quarterly assessment					
	Residential Care Payments	Medium		✓		
	Parking Services	High	✓		✓	
	Crime & Drugs Partnership	Medium		✓		
	Waste Management	High	✓		✓	
	Client Cash	High		✓		
	Local Authority Companies	High	✓	✓	✓	
	Workplace Parking Levy (SR27)	Medium	✓		✓	
	Fleet Management	Medium		✓		
	Fines Processing System	Medium			✓	
	Community Buildings	Medium			✓	
	Catering and Cleaning	Medium	✓			
	Neighbourhood Enforcement	Medium	✓			

Heading	Description of Audit	Risk Level	2015/16	2016/7	2017/18	Key NCC Priorities / Objectives
	Environmental Health	Medium		✓		
	Events Management	Medium	✓			
Allocation for CLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓		
Departmental Risks - Development						NP, TP, SR
	Coverage of emerging departmental risks identified by annual / quarterly assessment					
	Housing Rents (Key System)	Medium	✓	✓	✓	
	Housing Revenue Account	Medium	✓		✓	
	Property Services	High	✓		✓	
	Economic Development Funding Streams	High	✓	✓	✓	
	Section 106 Obligations	Medium		✓		
	Corporate Maintenance	Medium		✓		
	Royal Centre	Medium		✓		
	Building Compliance	High	✓		✓	
	Building Control	Medium		✓		
	Major Programmes	Medium	✓		✓	
	Woodfield Industries	Medium	✓			
Allocation for DLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓	✓	
Departmental Risks – Corporate Services						NP, TP, SR
	Coverage of emerging departmental risks identified by annual / quarterly assessment					
Internal Control	Work to support the preparation of the Annual Governance Statement	High	✓	✓	✓	
	Key Financial Systems:					
	○ Business Rates	Medium	✓	✓	✓	

Heading	Description of Audit	Risk Level	2015/16	2016/7	2017/18	Key NCC Priorities / Objectives
	o Council Tax	Medium	✓	✓	✓	
	o Benefits	High	✓	✓	✓	
	o Capital	Medium	✓	✓	✓	
	o Bank Reconciliation	Medium	✓	✓	✓	
	o Treasury Management	High	✓	✓	✓	
	Significant Financial Systems:					
	o Adult Residential Services Finance	Medium		✓		
	o Cash Collection	Medium		✓		
	o Estate Rents	Medium		✓		
	Pupil Benefits	Medium		✓		
	Fairer Charging	Medium	✓			
	Right to Buy	Medium			✓	
	Social and Local Welfare Assistance (SR26)	Medium	✓			
Allocation for RLT High Risk Priorities	Provide days for DLT to determine	Variable	✓	✓	✓	
Corporate						NP, TP, SR
	Corporate Governance	High	✓	✓	✓	
	Risk Management	High	✓	✓	✓	
	IT Audit (SR8a)	High	✓	✓	✓	
	Contract Audit	Medium	✓	✓	✓	
	Grants Audit	Medium	✓	✓	✓	
	Councillors Allowances	Medium	✓	✓	✓	
	Colleagues Expenses	Medium	✓	✓	✓	
	East Midlands Shared Services (EMSS)	High	✓	✓	✓	

Consultancy, Advice and Support						NP, TP, SR
	Contingency allowance to respond to ad-hoc queries and requests from management, including investigations	High	✓	✓	✓	
	Advice/liaison with colleagues	High	✓	✓	✓	
Companies						NP, TP, SR
	EMSS (separate plan)	Medium	✓	✓	✓	
	Internal Audit Service for NIC	Medium	✓	✓	✓	
	Internal Audit for other bodies	Medium	✓	✓	✓	
	Responsible Officer (Academies)	Medium	✓	✓	✓	
Developments / Other Work						NP, TP, SR
	Follow up of recommendations and reporting to Audit Committee	High	✓	✓	✓	
	Audit of charities and other accounts	Low	✓	✓	✓	
Response to Review of Internal Audit	Develop a modern fit for purpose Internal Audit Service. Improve focus of activity and efficiency of delivery with reduced net cost of service. Including greater emphasis on RBA with training & development required, participation in Internal Audit Shared Service	High	✓	✓	✓	
Public Sector IA Standards	Work to ensure compliance	Medium	✓			
Counter Fraud						TP
Response to the Audit Commission's 'Protecting the Public Purse' report	Strategy / Financial Regulations/Policy	High	✓	✓	✓	

and Fighting Fraud Locally:						
	Proactive activities, including, colleague awareness, NFI, data matching and establishment checks	High	✓	✓	✓	
Strategic Development						NP, TP, SR
Development	Develop IA function to address NCC strategic priorities and enhance the IA Delivery Model	Medium	✓	✓	✓	

Key to NCC Priority / Objectives

NP - NCC Priorities

TP - Transformation Portfolio

SR - Strategic Risk

AUDIT COMMITTEE – 25 APRIL 2014

Title of paper:	Strategic Risk Register (SRR) – Quarter 4 (Q4) 2013/14 Update	
Director(s)/ Corporate Director(s):	Report of the Deputy Chief Executive & Corporate Director of Corporate Services	Wards affected: ALL
Report author(s) and contact details:	Simon Burton – Corporate Risk Specialist ☎ 0115 87(63432) ✉ simon.burton@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Stephen Chartres - Performance & Improvement Manager Liz Jones - Head of Corporate Policy Steve Harrison - Information Specialist Mick Dunn – GIS Data & Information Officer Richard Henderson – Head of Change & Improvement Claire Gavagan - Business, Governance & Quality Specialist – Public Health	
Recommendation(s):		
1	Review previously selected risks: ○ <i>Public Health integration</i> (see Appendix 1) - presentation by Chris Kenny Director of Public Health.	
2	Consider and critically appraise the progress made on reducing the seriousness of the Council's strategic risks as reflected by their threat levels and Direction of Travel (DoT) for Q4 2013/14 (see Table 1 and Appendix 2).	
3	Note the results of the review of the SRR by CLT.	
4	Select one or more strategic risks from Appendix 2 for specific scrutiny as part of the SRR Q1 2014/15 Update.	

1. REASONS FOR RECOMMENDATIONS

1.1 The recommendations are made in line with the Audit Committee's risk management role in providing assurance on the adequacy of the Council's Risk Management Framework and the associated control environment by reviewing the mechanisms for assessing and managing risk. This report presents the latest CLT review of the strategic risks faced by the Council.

2. BACKGROUND

2.1 Threat level reduction progress

2.2 Progress in reducing the seriousness of our strategic risks is assessed by a combination of each risk's overall threat level and DoT. This rounded assessment gives a clearer picture of progress in reducing the risk threat level and is summarised in **Table 1**.

2.3 Several SRR risks have been assessed by risk owners as improving, stable or at target. **Five** risks are red, reflecting a range of delivery pressures and challenges the Council has to respond to.

- 2.4 Of the **14** strategic risks within the SRR:
- **Three** strategic risks show an improved threat assessment;
 - In total **seven** strategic risks are at target;
 - A further **two** strategic risks show an improved DoT.

Table 1 shows the strategic risks ranked in order of threat level and DoT (highest to lowest threat level):

TABLE 1: Risk Threat Level & DoT in rank order at Q4 2013/14			
SR No.	Strategic Risk Description	Threat Level	DoT (Q3–Q4)
Red rated strategic risks (5)			
6	Failure to safeguard vulnerable children	15	↔
11a	Failure to accurately predict and respond to financial pressures supporting the development and delivery of the medium term financial plan	12	↔
12a	Failure to provide the best educational outcome for children and opportunities for young people to access further education and skills training to contribute to the economic wellbeing of the City (under review)	12	↔
8b	Failure to implement and embed effective information management structures, polices, procedures, processes and controls to support the council's immediate and future regulatory, legal, and business requirements	12	↓
26	Failure to support Nottingham citizens and communities in minimising the negative impact of welfare changes	12	↓
Amber rated strategic risks (9)			
3	Failure to mitigate the impact of the economic climate on the Nottingham City and its citizens	9 At target	↔
25a	Failure to embed a corporate approach to commissioning, informed by citizen need, which drives delivery of improved services at significantly lower cost	9 At target	↓
28	Failure to ensure a financially sustainable ASC system to respond to significant increases in demand for care while protecting our most vulnerable citizens	12 to 9	↓
30	Failure to create an organisational environment that supports delivery of Council priorities (new risk added Q1 2013/14)	12 to 9	↓
7a/b	Failure to reduce levels of crime and anti-social behaviour (ASB)	12 to 8 At target	↓
2a	Of the reputation of the City	6 At target	↔
5a	Failure to safeguard vulnerable adults	6 At target	↓

TABLE 1: Risk Threat Level & DoT in rank order at Q4 2013/14 (continued)			
SR No.	Strategic Risk Description	Threat Level	DoT (Q3–Q4)
Amber rated strategic risks (9)			
10	Failure to maintain good standards of governance	6 At target	↔
24	Failure to ensure effective systems are in place to manage health and safety risks	6 At target	↔
Green rated strategic risks - There are no green rated risks at Q4.			

DoT key: ↓ Reducing Threat Level ↔ Stable Threat Level ↑ Increasing Threat Level

Appendix 2 identifies individual risk owners, detailed risk threat level assessments between June 2013 (Q1 2013/14) and March 2014 (Q4 2013/14) and the projected dates when target threat levels will be achieved.

2.5 Review of new, emerging and existing SRR risks

2.5.1 SR6 - Failure to safeguard vulnerable children: For Q3 SR6 became the Council's most serious risk. This quarter's update has been deferred pending the outcome of the current Ofsted inspection, which will be reflected in the update for Q1/Q2 2014/15.

2.5.2 SR7a/b - Failure to reduce levels of crime and anti-social behaviour (ASB) was reviewed in Q2 of 2012/13 and re-scoped on delivery of crime and ASB targets. Originally assessed at 12, the threat level has remained the same until this quarter. The threat assessment of 8 for Q4 is the product of mitigations and their incremental improvements across a number of risks over the last 6 quarters most notably:

- *That the appointment of the Nottinghamshire Police and Crime Commissioner (PCC) may result in the dilution of focus and resources for the City (12 to 8) –* With the PCC in place for some time, this risk has not materialised. The Crime Plan provides focus on the City and in particular where it has an impact on Community Protection;
- *The ongoing combination of drug misuse and alcohol as a driver of crime (12 to 9) –* The development and implementation of a new drug treatment pathway has enabled treatment for those with related alcohol problems, with the pathway focusing on young people and prisoners.

For this quarter improvements are evident for the following constituent risks:

- *That the current "Thematic" approach to crime reduction is no longer enough in itself to achieve The Nottingham plan reduction in crime target (9 to 6) -* Partners remain committed to a geographical approach with problems being addressed through the locality working model. This approach has evolved with NCC Directors becoming chairs of the locality boards and the introduction of a tighter crime focus. High volume crimes continue to be addressed using a thematic approach;

- *Of not reducing crime levels to the average amongst Nottingham's Most Similar Family of Community Safety Partnerships (16 to 12) – Nottingham continues to close the gap on the average amongst Nottingham's Most Similar Family of Community Safety Partnerships, over the last 12 months, moving up two places from 15th to 13th. This will remain a challenge due to the tightly drawn boundary and a disproportionate number of young people compared to other cities/ CSP areas;*
- *That disparate database information does not provide effective performance and case management with focus on victims and perpetrators (9 to 6) - In response, a shared database has been procured. The ASB database is being used by a work group and live cases are being entered onto the system. Further roll out to all the relevant officers within Crime Partnership will take place in 2014.*

Of concern is the *impact of shop theft, and mobile phone theft becoming an increasing proportion of All Crime (12)*. A series of performance summits have been held targeting burglary, shop theft and mobile phone theft. Subsequently action plans and task and finish groups have been set up. Mobile phone theft is now reducing compared to last year and shop theft is also reducing.

2.5.3 *SR8b - Failure to implement and embed effective information management structures, polices, procedures, processes and controls to support the council's immediate and future regulatory, legal, and business requirements:* The overall assessment of the risk remains unchanged at 12, but an improving DoT reflects significant progress and anticipated accreditation to N3 (Information Governance (IG) in social care – Children & Families) and PSN (IT infrastructure/security) standards for 2014/15. Although confident of accreditation, this has not yet been officially confirmed. These standards become increasingly demanding with time and accreditation will need to be renewed annually, and additional investment is likely to be needed to secure and maintain this.

The plan now is to extend sound information management practices and improvements more widely across the organisation and to ensure that improvement keeps pace with changing standards over time. CLT has approved a number of key IG proposals which address matters of compliance, but also business effectiveness aligned to key elements of transformational change (for example the Customer Access and Commercialism programmes) as well as the ongoing efficiency, effectiveness and reputation of the Council.

In June the Information Commissioner's Office (ICO) will review the Council's information governance arrangements. The outcome of this inspection will be reflected in the update of the RMAP for Q1 2014/15.

2.5.4 *SR26 - Failure to support Nottingham citizens and communities in minimising the negative impact of welfare changes:* While the overall threat assessment remains unchanged from Q3 at 12, the DoT has been revised to show improvement, based on the sustained activity which has been designed and implemented through 2013/14. Extensive work has taken place to understand the risks and to establish effective mitigations – many of these have now become business as usual, for example the application of the eviction prevention protocol. For the current quarter there has been progress for two of the constituent risks:

- *Failure to develop, adopt and implement a Local Council Tax Support scheme by January 2014, as required by the Government's abolition of the national Council Tax Benefit and transfer of this responsibility to billing authorities (9 to 4) – the Council Tax Support scheme (CTSS) was approved at Full Council in January;*
- *Our Local Council Tax Support scheme fails to minimise unnecessary economic hardship to citizens and increased financial burden to the Council (16 to 12) – our 2013/14 CTSS took advantage of additional one off Government funding and other mechanisms, including a £1m contribution from the Council, to minimise the adverse economic impact of the abolition of the national Council Tax benefit scheme.*

The CTSS adopted for 2014/15 continues this approach, with a continued £1m contribution from the council to minimise adverse future economic impact for citizens, but the removal of the one off Government funding has reduced our ability to minimise the impact compared to 2013/14.

Reflecting the cross cutting nature of work to mitigate Welfare Reform risks, and the need to embed these mitigations within business as usual, the Employment and Welfare Support Programme Board has been established to oversee the implementation of key recommendations to help the city's communities be more resilient to welfare changes.

- 2.5.6 SR28 - Failure to ensure a financially sustainable adult social care system to respond to significant increases in demand for care while protecting our most vulnerable citizens: Monitoring and reporting of this risk has been moved to Covalent providing an automated assessment of the threat assessment of the strategic risk based on the average of the constituent risks. It is as a consequence of this rather than any other change that the overall threat level has "improved" from 12 to 9 for Q4.

While there are several challenges, three red risks stand out which cover resource requirements and capacity, the potential for care service costs to rise more quickly than predicted and the risk of not achieving financial targets - all of which are at 12. The assessment of these risks has not changed for Q4, but projections for achievement of financial targets for this current year show that the gap has narrowed in Q4. Despite this, the risk of meeting financial targets in future years remains significant.

- 2.5.7 SR30 - Failure to create an organisational environment that supports delivery of Council priorities entered the SRR in Q1 of 2013/14 focussed on creating a corporate "organisational environment" that supports frontline service delivery and delivery of the Council's priorities. Initially risk assessed as 12 at Q1 of 2013/14, the threat assessment has improved for Q4 to 9. Initial work with colleagues highlighted a number of risks and through subsequent workshops attention focussed on the five most serious risks and their mitigations:

- *Failure to ensure the long term vision for the city keeps pace with the changing financial environment* - Initially assessed at 12 work, has centred on engagement of CLT and the senior Executive in discussing the budget position and priorities, the renewed focus through the operating model on early intervention, the contribution of commercialism to driving improvement/change and the clarity of purpose and drive for improvement provided by *Putting the Citizen At The Heart* of Everything We Do (PCATH) and *Good To Great* initiatives. In light of this work, the assessment has improved from 12 to 8;
- *Failure to ensure that governance / policies / systems and processes add maximum value to the delivery of services to citizens* – Mitigations have targeted increasing stakeholder engagement in the development of policies and processes, implementation of the People Management Strategy and creation of the Improving Performance and Reducing Bureaucracy project. The risk assessment has improved from 16 to 12;
- *Resistance from colleagues and managers to required changes arising from change fatigue/lack of support for 'difficult' decisions* – In addition to the above mitigations key mitigations include assessment of the impact of change on frontline service delivery, additional support for change focussed on PCATH, Commercialism, Early Intervention and a planned refreshed approach to leadership development and the focus on key leadership attributes. The risk assessment has improved from 12 to 9;
- *Managers lack the right skills to operate effectively in a more commercialised environment* – The refreshed approach to leadership development, coupled with Commercialism are seen as the main responses to the need to raise expectations, skills and performance. For Q4 the risk assessment has improved from 16 to 12;
- *The Council fails to equip leaders with the right skills and attitudes (e.g. commercial approach, appropriate risk appetite) to enable colleagues to perform effectively and release discretionary effort* – A combination of the above mitigations has resulted in a reassessment of the risk threat level from 12 to 9.

While two red assessed constituent risks remain, there has been significant improvement largely around shaping future direction and identifying required behaviour/culture change and the mitigations are assessed as adequate to bring the risks as currently identified to target. However, further consideration will need to be given in Q1 2014/15 to infrastructure risks, for example IT and telephony, and where these risks should be reflected in the SRR.

2.5.8 Public Health service delivery and integration risks:

During 2012/13, the strategic risk for public health included the risk around the transfer of the public health function to the Council which occurred on 1st April 2013. This has now been removed from the register and work to determine any further risks for public health service delivery and integration has commenced.

A Public Health departmental risk register is under development. This register will take into account the new structure of an integrated Nottingham City and Nottinghamshire County public health team lead by a single DPH working across both councils. A further assessment of this register will identify whether a future strategic risk entry is advised.

In exercising their public health functions, the Council need to ensure the provision of a number of mandated services:

- Weighing and measuring of certain children in their area (including age and school type)
- Health checks for eligible people (depending upon age and health status)
- Open access sexual health services in their area. HIV treatment and care
- Public health advice service, in relation to their powers and duties to commission health services, to any Clinical Commissioning Groups (CCGs)
- Information and advice to certain persons and bodies within their area in order to promote the preparation of, or participation in, health protection arrangements against threats to the health of the local population, including infectious disease, environmental hazards and extreme weather events

Other public health responsibilities for the Council include:

- Tobacco control
- Alcohol and drug misuse services
- Obesity and community nutrition initiatives
- Increasing levels of physical activity in the local population
- Public mental health services
- Dental public health services
- Accidental injury prevention
- Population level interventions to reduce and prevent birth defects
- Behavioural and lifestyle campaigns to prevent cancer and long term conditions
- Local initiatives on workplace health
- Supporting, reviewing and challenging delivery of key public health funded and NHS delivered services such as immunisation programmes

Public health priorities are set in accordance with local need The Public Health Outcomes Framework. The framework sets out the key indicators the Department of Health expects local authorities to work towards and includes two high-level outcomes upon which all public health activity needs to be based:

- Increased healthy life expectancy i.e. taking account of the health quality as well as length of life;
- Reduced differences in life expectancy and healthy life expectancy between communities (through greater improvement in more disadvantaged communities).

Aligned to these objectives, Public Health undertakes a number of specialist technical functions including health needs assessment, critical appraisal of the evidence base, prioritisation, health equity audit, health impact assessment, evaluation and research and provides overall strategic leadership of the public health agenda to ensure that services commissioned lead to improved health and wellbeing of the population.

Of the risks identified, most are operational and not assessed as significant. However, three risks stand out as being more significant:

- **Substance misuse (Drugs) and sexual health**- *Over performance within contracts, and increase on demand led service tariff, could lead to budget pressures*
- **Public health budget realignment** - *Achievement of financial targets by Public Health could adversely impact the ability of the Public Health function to fulfill its commitments/duties to improve the public's health and reduce inequalities*
- **Clinical Governance** - *Failures in commissioning or contract management or adequate procedures could leave citizens at risk and the Council open to financial liability*

While there are risks identified, these are currently assessed at a level that collectively does not warrant a strategic risk. Public Health integration already forms part of the Transformation Portfolio. CLT agreed that ongoing monitoring of the Public Health risk should take place through Transformation Programme Governance arrangements. In addition to this, review of Public Health risks (integration and commissioning) forms part of the Joint City & County Health Scrutiny Committee work programme.

2.6 Future Audit Committee reviews

The provision to select strategic risks for review allows Audit Committee to direct attention to areas of risk considered potentially significant to the Committee's operations and remit. The Committee is invited to select two strategic risks from **Appendix 2** for more detailed examination in the SRR Q1 2014/15 Update. Selection might be based on the time elapsed since the risk was last reviewed, changes in the risk's threat level (or DoT) or relevance to current local or national matters of interest or concern.

3. LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

3.1 Quarter 4 2013/14 Strategic Risk Management Action Plans.

4. PUBLISHED DOCUMENTS REFERED TO IN COMPILING THIS REPORT

4.1 SRR Q3 Update reported to Audit Committee 28 February 2014.

APPENDICIES

Appendix	Description
1	<i>Public Health integration (RMAP available for review by Audit Committee)</i>
2	Nottingham City Council Strategic Risk Register - Report Summary



Failure to deliver an effective Public Health function and secure benefits from wider integration with the Council resulting in adverse impact on citizen wellbeing

The risk is scoped around delivering the Public Health function and statutory responsibilities while securing benefits through implementing wider integration of the service/resources with the Council.

Threat Assessment Matrix

		Impact (I)				
		Negligible (1)	Minor (2)	Moderate (3)	Major (4)	Extreme (5)
Likelihood (L)	Remote (1)	1	2	3	4	5
	Unlikely (2)	2	4	6	8	10
	Possible (3)	3	6	9	12	15
	Likely (4)	4	8	12	16	20
	Almost certain (5)	5	10	15	20	25

Owner:	C. Kenny, Dir Public Health					Completed by:	C. Gavigan, Business, Governance & Quality Specialist					Date completed:	Mar 2014	Review date:	Jun 2014
RISK SUMMARY															
Opening (Mar 14)			Previous (N/A)			Current (Mar 2014)			Target (April 15)			Overall risk mitigation effectiveness (Adequate, Yet to secure improvement, Inadequate)			
Threat level (LxI=??)		DoT	Threat level (LxI=??)		DoT	Threat level (LxI=??)		DoT	Threat level (LxI=??)						
3	3	9	L	I	N/A	↓ Improving ↔ Stable ↑ Deteriorating	3	3	9	↓ Improving ↔ Stable ↑ Deteriorating	2	3	6	Yet to secure improvement	

Failure to deliver an effective Public Health function and secure benefits from wider integration with the Council resulting in adverse impact on citizen wellbeing - Risk Register

14/04/2014 16:38

RISKS TO BE MANAGED																					
Risk Ref.	Risk Description (cause, risk & impact)	Date identified	Identified by	Risk owner	Proximity (date when could impact)	Opening Threat Level e.g. 2x4=8			Previous Threat Level e.g. 2x4=8			Latest Threat Level e.g. 2x4=8			DoT (↓ Improving ↔ Stable ↑ Deteriorating)	Target Threat Level e.g. 2x4=8			Proposed Mgt Action	Risk mitigation effectiveness (Adequate, Yet to secure improvement,	Status (Raised, Open, Closed)
1	Sexual Health - Contracts within Sexual Health are demand led/tariff based. Unanticipated uptake could increase costs impacting the PH budget and other services	24/03/14	SLT	AC		4	2	8	L	I		4	2	8	↔	4	2	8	Tolerate	Adequate	Open
2	Substance Misuse (Drugs and alcohol) - Contracts are demand led/tariff based. Unanticipated uptake could increase costs impacting the PH budget and other services	24/03/14	SLT	BB		3	3	9	L	I		3	3	9	↔	3	3	9	Tolerate	Adequate	Open
3	Health checks - The implementation of national 5 year rolling programme is a statutory requirement. Uncertainty exists around the level of uptake and the cost of the programme with the potential to impact PB budget and other services	24/03/14	SLT	JT		2	2	4	L	I		2	2	4	↔	2	2	4	Tolerate	Adequate	Open
4	Infection Control/Prevention - changes to service budgets to realign the PH grant could impact service delivery for infection control	24/03/14	SLT	JG		2	2	4	L	I		2	2	4	↔	2	2	4	Tolerate	Adequate	Open
5	Winter Warmth - changes to service budgets to realign the PH grant could impact service delivery for winter warmth	24/03/14	SLT	MC		2	2	4	L	I		2	2	4	↔	2	2	4	Tolerate	Adequate	Open
6	School Nursing Children 5-19 - The provider is currently recruiting to vacant posts and this could potentially impact on the school nursing service	24/03/14	SLT	LM		4	2	8	L	I		4	2	8	↔	4	2	8	Tolerate	Adequate	Open
7	Public Health Budget Realignment - the risk is the realignment of Public Health grant services could result in commissioned services which are not as effective in supporting the PH agenda as existing providers	24/03/14	SLT	JC/AC		3	3	9	L	I		3	3	9	↔	3	3	9	Tolerate	Adequate	Open
8	Public Health Efficiency Savings - Realignment of Public Health grant depends on securing money from existing services. Most of this will come from efficiencies within current services, or services coming to a natural end. The risk is not securing the money for reallocation impacting the PH budget and other services	24/03/14	SLT	JC/AC		2	3	6	L	I		2	3	6	↔	2	3	6	Tolerate	Adequate	Open

RISKS TO BE MANAGED

Risk Ref.	Risk Description (cause, risk & impact)	Date identified	Identified by	Risk owner	Proximity (date when could impact)	Opening Threat Level e.g. 2x4=8			Previous Threat Level e.g. 2x4=8			Latest Threat Level e.g. 2x4=8			DoT (↓ Improving ⇔ Stable ↑ Deteriorating)	Target Threat Level e.g. 2x4=8			Proposed Mgt Action	Risk mitigation effectiveness (Adequate, Yet to secure improvement,	Status (Raised, Open, Closed)
9	Tobacco - number of smoking quitters has reduced over the last couple of years, possibly due to the introduction of e-cigs. Current service provider not able to offer these so risk is potential inability to achieve smoking quitter targets	24/03/14	SLT	JT		2	2	4	L	I		2	2	4	⇔	2	2	4	Tolerate	Adequate	Open
10	Dental - currently in discussion with Provider over new service specification; potential risk is the ability to implement the new service changes	24/03/14	SLT	LM		2	1	2	L	I		2	1	2	⇔	2	1	2	Tolerate	Adequate	Open
11	Clinical Governance - Failures in commissioning or contract management could leave the Council open to financial liability	24/03/14	SLT	JC		2	4	8	L	I		2	4	8	⇔	2	4	8	Tolerate	Adequate	Open

Failure to deliver an effective Public Health function and secure benefits from wider integration with the Council resulting in adverse impact on citizen wellbeing - Risk & 14/04/2014 16:38



EXISTING MANAGEMENT ACTIONS				ADDITIONAL MANAGEMENT ACTIONS			ALL
Risk Ref.	Issue Ref.	Description of actions already in place to mitigate the identified risks	Person accountable	Description of additional actions to put in place (mandatory where current risk mitigation effectiveness is "Inadequate")	Person accountable	Date action due to be completed	Review date
1		Proactive Contract Negotiations to reduce the cost basis	AC	Performance monitoring of contracts, to highlight any over/under performance	AC	On going	
2		Drug and alcohol commissioning undertaken by the CDP, who are actively involved in discussions about the PH grant	CDP				
3		Continual active contract management of the Health checks programme to assure costs come within budget	JT				
4		Continual active contract management of the service, to ensure all relevant outcomes are achieved	JG	A new service specification is being developed			
5		Continual active contract management of the service, to ensure all relevant outcomes are achieved	MC				
6		Public Health Consultant lead is working with Citycare to ensure school nursing jobs are actively recruited to and in line with the service specification	LM				
7				Public Health Consultants working closely with NCC departments to ensure Public Health is established across the authority; this includes a Consultant attending each of the DLTs to ensure appropriate PH integration	AC	On going	
8				Public Health Consultants working closely with providers to ensure efficiency savings are achieved, without affecting service delivery	AC	On going	

EXISTING MANAGEMENT ACTIONS				ADDITIONAL MANAGEMENT ACTIONS			ALL
Risk Ref.	Issue Ref.	Description of actions already in place to mitigate the identified risks	Person accountable	Description of additional actions to put in place (mandatory where current risk mitigation effectiveness is "Inadequate")	Person accountable	Date action due to be completed	Review date
9				Service Specification adjusted to reflect efficiency savings - work continuing with the provider to ensure as big an uptake as possible to maximise the achievement of smoking quitter numbers	JT	On going	
10				Work continuing with the provider to agree the specification	LM	On going	
11				Public Health working with Quality and Commissioning, the Legal team and Policy and Performance to ensure policies and agreements are put in place to cover the NCC if the form of Clinical Governance	JC	On going	

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Nottingham City Council Risk Register - Report Summary

Ref.	Risk description	SR criteria						Threat level (seriousness) & DoT				DoT	Target Threat Level	Managing Accountability			
		Highest Pri	Corp Mit	Legal	Reputation	H & S	Citizen well-being	Financial	Date threat level & DoT	2013/14				Corporate Director (Risk Owner)	Lead Director or Senior Colleague		
										Q1	Q2					Q3	Q4
SR6	Failure to safeguard vulnerable children		✓	✓	✓		✓	✓	Date	Jun-13	Oct-13	Jan-14	Jan-14	↔	Apr-14	A. Michalska CD - Children & Families	H. Blackman Director Safeguarding
									Threat Level	15 (3x5) R	15 (3x5)	15 (3x5)	15 (3x5)		10 (2x5)		
									DoT	Improving	Stable	Deteriorating	Stable				
SR11a	Failure to accurately predict and respond to financial pressures supporting the development and delivery of the medium term financial plan		✓		✓			✓	Date	Jun-13	Oct-13	Jan-14	Mar-14	↔	6 (3x2)	C. Mills Deputy Chief Exec. / CD-Res	T. Kirkham Strategic Finance Director
									Threat Level	12 (3x4) C	12 (3x4)	12 (3x4)	12 (3x4)				
									DoT	Stable	Stable	Stable	Stable				
SR12a	Failure to provide the best educational outcome for children and opportunities for young people to access further education and skills training to contribute to the economic wellbeing of the City (under review)	✓	✓		✓				Date	Mar-13	Oct-13	Jan-14	Jan-14	↔	Apr-15	A. Michalska CD - Children & Families	N. Lee Head of School Access & Imp Acting A. Conquer Head of Ed
									Threat Level	12 (3x4)	12 (3x4) C	12 (3x4) R	12 (3x4)		8 (2x4)		
									DoT	Stable	Stable	Stable	Stable				
Page 43 SR12b	Failure to implement and embed effective information management structures, policies, procedures, processes and controls to support the council's immediate and future regulatory, legal, and business requirements				✓			✓	Date	Jun-13	Oct-13	Jan-14	Mar-14	↓	Apr-14	C. Mills Deputy Chief Exec. / CD-Res	M. Gannon Director IT
									Threat Level	12 (3x4) C	12 (3x4)	12 (3x4)	12 (3x4)		9 (3x3)		
									DoT	N/A	Stable	Stable	Improving				
SR26	Failure to support Nottingham citizens and communities in minimising the negative impact of welfare changes		✓				✓		Date	Jun-13	Oct-13	Jan-14	Jan-14	↓	Apr-14	C. Mills Deputy Chief Exec. & CD-Res	L. Jones Head of Corporate Policy
									Threat Level	16 (4x4)	16 (4x4)	12 (3x4)	12 (3x4)		9 (3x3)		
									DoT	Stable	Stable	Improving	Improvng				
SR3	Failure to mitigate the impact of the economic climate on Nottingham City and its citizens			✓		✓			Date	Jun-13	Oct-13	Jan-14	Mar-14	↔	Apr-12	D. Bishop CD - Dev	N. Jenkins Head of Economic Development
									Threat Level	9 (3x3)	9 (3x3)	9 (3x3)	9 (3x3)		9 (3x3)		
									DoT	Stable AT TARGET	Stable AT TARGET	Stable AT TARGET	Stable AT TARGET				
SR25a	Failure to embed a corporate approach to commissioning, informed by citizen need, which drives delivery of improved services at significantly lower cost			✓		✓	✓		Date	Jun-12	Oct-13	Jan-14	Mar-14	↓	Mar-14	A. Michalska CD - Children & Families	C. Brudenell Director of Quality and Commissioning
									Threat Level	12 (3x4)	12 (3x4)	9 (3x3)	9 (3x3)		9 (3x3)		
									DoT	Improving	Stable	Improving AT TARGET	Improving AT TARGET				

Ref.	Risk description	SR criteria							Threat level (seriousness) & DoT				DoT	Target Threat Level	Managing Accountability		
		Highest Pri	Corp Mit	Legal	Reputation	H & S	Citizen well-being	Financial	Date threat level & DoT	2013/14					Corporate Director (Risk Owner)	Lead Director or Senior Colleague	
										Q1	Q2	Q3					Q4
SR28	Failure to ensure a financially sustainable adult social care system to respond to significant increases in demand for care while protecting our most vulnerable citizens				✓		✓	✓	Date	Jun-13	Oct-13	Dec-13	Mar-14	↓	Mar-14	A. Michalska CD - Children & Families	H. Jones - Director of Adult Assessment
		Threat Level	12 (4x3)	12 (4x3)	12 (4x3)	9 (3x3)	6 (2x3)										
		DoT	Stable	Stable	Improving	Improving											
SR30	Failure to create an organisational environment that supports delivery of Council priorities		✓		✓			✓	Date	Jun-13	Oct-13	Jan-14	Mar-14	↓	Mar-14	I. Curryer Chief Exec.	R. Henderson Head of Service Change & Improvement
		Threat Level	12 (3x4) C	12 (3x4)	12 (3x4)	9 (3x3)	8 (2x4)										
		DoT	N/A	Stable	Stable	Improving											
SR7a/b	Failure to reduce levels of crime and anti-social behaviour (ASB)	✓	✓		✓				Date	Jun-13	Oct-13	Jan-14	Mar-14	↓	Apr-14	J. Kelly CD-Comm	E. Orrock Comm Safety Exec. Coordinator
		Threat Level	12 (3x4)	12 (3x4)	12 (3x4)	8 (2x4)	8 (2x4)										
		DoT	Improving	Stable	Stable	Improving AT TARGET											
SR2a	Of the reputation of the City		✓		✓			✓	Date	Jun-13	Oct-13	Jan-14	Mar-14	↔	Oct-12	I. Curryer Chief Exec.	C. Richmond Dir Policy Partnerships & Comms
		Threat Level	6 (2x3)	6 (2x3)	6 (2x3)	6 (2x3)	6 (2x3)										
		DoT	Stable AT TARGET	Stable AT TARGET	Stable AT TARGET	Stable AT TARGET											
SR6a	Failure to safeguard vulnerable adults		✓	✓	✓			✓	Date	Jun-13	Oct-13	Jan-14	Mar-14	↔	Oct 2014	A. Michalska CD - Children & Families	H. Jones Dir Comm Inclusion E. Yardley Dir Access & Reablement
		Threat Level	8 (2x4)	8 (2x4)	6 (2x3)	6 (2x3)	6 (2x3)										
		DoT	Improving	Improving	Improving AT TARGET	Stable AT TARGET											
SR10	Failure to maintain good standards of governance		✓		✓			✓	Date	Jun-13	Sep-13	Jan-14	Mar-14	↔	Mar-13	C. Mills Deputy Chief Exec. & CD-Res	G. O'Connell Director Legal & Democratic Services
		Threat Level	6 (2x3)	6 (2x3)	6 (2x3)	6 (2x3)	6 (2x3)										
		DoT	Improving AT TARGET	Stable AT TARGET	Stable AT TARGET	Stable AT TARGET											
SR24	Failure to ensure effective systems are in place to manage health and safety risks			✓	✓	✓		✓	Date	Jun-13	Oct-13	Jan-14	Mar-14	↔	Dec-13	C. Mills Deputy Chief Exec. & CD-Res	P. Millward Head of Service Emergency Planning
		Threat Level	6 (2x3)	6 (2x3)	6 (2x3)	6 (2x3)	6 (2x3)										
		DoT	Improving AT TARGET	Stable AT TARGET	Stable AT TARGET	Stable AT TARGET											

DIRECTION OF TRAVEL (DoT):

Improving (reducing) threat level



Stable threat level



Deteriorating (increasing) threat level



AUDIT COMMITTEE – 25 APRIL 2014

Title of paper:	REVIEW OF ACCOUNTING POLICIES	
Director(s)/ Corporate Director(s):	Carole Mills Deputy Chief Executive/Corporate Director & CFO	Wards affected: All
Report author(s) and contact details:	Barry Dryden, Senior Finance Manager, Financial Reporting barry.dryden@nottinghamcity.gov.uk 0115 876 2799	
Other colleagues who have provided input:	None	
Recommendation(s):		
1	Review and agree the Statement of Accounting Policies for inclusion in the 2013/14 annual accounts.	
2	Review and agree the proposals where International Financial Reporting Standards (IFRS) allow a degree of choice.	

1. REASONS FOR RECOMMENDATIONS

- 1.1 Part 3 of the Annual Accounts and Audit Regulations 2011 (the Regulations) require the City Council to produce an annual Statement of Accounts. In accordance with IFRS, the Statement of Accounts must include a statement of accounting policies.
- 1.2 The Regulations also require a draft of the Statement of Accounts to be prepared and certified by the responsible financial officer by 30 June. In accordance with best practice for local authorities, the draft accounting policies should be reviewed by Audit Committee before the draft 2013/14 Statement of Accounts is produced.
- 1.3 In addition, where IFRS allows a degree of choice, Audit Committee should be aware of, and confirm the choices made.

2. BACKGROUND

- 2.1 The draft 2013/14 accounting policies are included in Appendix A. There are no significant changes to the accounting policies from 2012/13 but they have been reworded into plain language for the benefit of the reader. In order to give the main focus to the core financial statements, only the critical Accounting Policies will be included in the body of the Statement of Accounts with a full version shown as an appendix.

2.2 Critical Accounting Policies

The critical accounting policies provide the fundamental bases for producing the Statement of Accounts and warrant particular consideration. These policies have therefore been reproduced below:

Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor is recorded in the Balance Sheet

Government Grants and Contributions

Government grants and other contributions are recognised as due to the Council when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

Valuation of Non-Current Assets

Generally non-current assets are valued initially at cost and subsequently revalued at fair value; the amount that would be paid for the asset in its existing use. The main exceptions are infrastructure, which is generally valued at depreciated historical cost, council dwellings, which are valued at Existing Use Value for Social Housing and heritage assets, which are valued at market value by an external valuer.

Interests in Companies and Other Entities

Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses

2.3 Choices made under IFRS

For some policies the IFRS provides different options that can be used. The choices made in these instances have been applied consistently over the years, however, it would be prudent for Audit Committee to reaffirm the choices made. The key proposals are detailed below:

De Minimus Capital Expenditure

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet:

	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. The Council has chosen to only apply componentisation where the value of the asset is in excess of £3m.

Depreciation (including amortisation of intangible assets)

Certain PPE components and Intangible Assets are written down over time and charged to revenue. IFRS allows the Council to assess the period and choose methodology. The following assets are depreciated on a straight line basis over their individually assessed useful life, unless otherwise stated:

- Dwellings, buildings, vehicles, plant, furniture and equipment
- Infrastructure and Community are depreciated over 25 years
- Intangible assets are depreciated over 5 years

2.4 The draft accounting policies will also be reviewed by the external auditors, KPMG, and therefore are still subject to change. Any major changes will be highlighted to Audit Committee at its next meeting.

3. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Annual Accounts 2012/13

Accounting and Audit Regulations 2013

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

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(Appendix A)

Accounting Policies

This section explains the accounting policies applied in producing the Statement of Accounts.

1.1 General Principles

1.1.1 Statutory Guidance and Accounting Standards used

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. It provides the reader with information about the Council's financial position and its stewardship of public funds. The Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2011 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) which is based on approved accounting standards. In addition to compliance with the Code, the Council's accounts also comply with the Service Reporting Code of Practice 2012/13. This Code sets out proper practice for financial reporting to ensure consistency and comparability across Councils. The accounts are supported by IFRS and statutory guidance issued under section 7 of the 2011 Act.

1.1.2 Accounting Convention

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.

1.1.3 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

A prior period adjustment will be made to the accounts as a result of a change in accounting policies. Changes in accounting estimates will be accounted for prospectively. Material errors in prior periods are corrected retrospectively by amending opening balances and comparative amounts. A full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

1.1.4 Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the Balance Sheet date of 31 March and the date when the Statement of Accounts is authorised for issue. The two types of events and the accounting treatment are given below:

- For any material events after the balance sheet date which provide additional evidence regarding conditions existing at the balance sheet date, an adjustment has been made to the Statement of Accounts.
- Material events after the balance sheet date which concerned conditions not existing at 31 March have been disclosed as a separate note to the accounts.

1.1.5 Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Further details are given below:

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Cash received or paid and not yet recognised as income or expenditure is shown as a creditor (receipt in advance) or debtor (payment in advance) in the Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES) adjusted accordingly. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Fees, charges and rents due from customers are accounted for as income at the date that the Council provides the associated goods or services.
- Supplies are recorded as expenditure in the period during which 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. For some quarterly payments including gas and electricity, expenditure is recorded at the date of meter reading rather than being apportioned between financial years. This practice is consistently applied each year and therefore does not have a material effect on the year's accounts.
- Works are charged as expenditure, once complete, prior to completion they are carried as 'works in progress' on the Balance Sheet.
- For significant accruals such as pay awards, estimates are made based on the best information available at the time. Cost of pay awards not yet settled but likely to apply to part of the financial year to which the accounts relate are based on forecasted cost.
- Interest payable on borrowings and interest receivable on investments is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Income and expenditure are credited and debited to the relevant service revenue account in the CIES. Capital expenditure creates a fixed asset which is shown on the Balance Sheet.

Accruals have been made on the basis of the known value of the transaction wherever possible. Where estimates have been required to be made, they are based on appropriate and consistently applied methods. In the case of highways and building works, the related assets or liabilities will be valued at the year-end by colleagues working in the relevant service. Where there has been a change to an estimation method from that applied in previous years and the effect is material, a description of the change and if practicable, the effect on the results for the current period is separately disclosed.

1.2 Policies primarily affecting the CIES

1.2.1 Government Grants and Contributions

Government grants and other contributions are recognised as due to the Council when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

1.2.2 Business Improvement Districts (BID)

A BID scheme applies across the whole of the Council. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the CIES.

1.2.3 Operating Leases

Receivable (Council as lessor)

Where the Council has granted 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 CIES. Credits are made on a straight line basis over the life of the lease and any direct costs incurred in negotiating and arranging the lease are added to the carrying amount and charged as an expense over the lease term on the same basis as rental income.

Payable (Council as lessee)

Rentals paid under operating leases are charged to the service benefiting from use of the leased asset in the CIES. Charges are made on a straight-line basis over the life of the lease, regardless of the pattern of payments.

1.2.4 Employee Benefits

Benefits Payable During Employment

Wages and salaries, paid annual leave and paid sick leave are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of the holiday entitlements or for any form of leave, e.g. time off in lieu, which employees have earned during the year but are able to carry forward into the next financial year.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the CIES when the Council is demonstrably committed to the termination of the employment of an employee or group of employees or are making an offer to encourage voluntary redundancy.

Teachers Pension Scheme

Pension costs relating to Teachers' Pension Scheme have been treated as defined contribution schemes and the costs are charged to Children's and Education in the CIES.

Defined Benefit Schemes (Local Government Pension Scheme)

Within the CIES, service revenue accounts have been charged with their current service cost, which represents the extent to which the pension liability has increased

as a result of employee service during the year. Past service costs, settlements and curtailments have been charged to non-distributable costs.

Discretionary Benefits

The Council 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.

1.2.5 Charges to Service Revenue Accounts for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

1.2.6 Financing and Investment

The financing an investment line of the CIES is charged or credited for the following amounts relating to investments:

- Gain or loss on the difference between net sale proceeds and carrying value of investment properties.
- Rental income from investment properties
- Gains and losses on the repurchase or early settlement of borrowing.
- Interest costs and expected return on Defined Benefit pension schemes.

1.2.7 Other Operating Expenditure

Other operating expenditure includes charges for:

- The proportion of receipts relating to HRA disposals payable to the Government
- Gains or losses on sale and derecognition of non-current assets (excluding investment properties)
- Actuarial gains or losses of Defined Benefit Pension Schemes, which are charged to the Pension Reserve

1.2.8 Overheads and Support Services

Overheads and support services are charged to service revenue accounts, trading undertakings and other support services in accordance with the Service Reporting Code of Practice. The basis for apportionment is generally time spent by colleagues on relevant tasks although other bases are used where more appropriate. The costs of Corporate and Democratic and Non-Distributable costs are not charged to service revenue accounts but are shown as separate lines on the CIES.

1.2.9 Carbon Reduction Commitment Scheme

As energy is used and carbon dioxide is emitted, an expense is charged to services in the CIES based on the current market price of allowances, together with a corresponding liability being created on the Balance Sheet. The expense is apportioned to services on the basis of energy consumption. The liability is subsequently discharged when the allowances are purchased retrospectively.

1.2.10 Landfill Allowance Schemes

When landfill is used an expense is charged to the CIES. This expense is matched by treating the use of landfill allowances allocated by DEFRA as government grants. Landfill used in excess of the allowances will appear as an expense in the form of allowances purchased from other Waste Disposal Authorities or a cash penalty paid to DEFRA.

Any residual allowances are measured at the lower of cost or net realisable value. However, due to the significant level of surplus landfill allowances available and trading being minimal, any surplus landfill allowances are judged to have no value.

1.2.11 Exceptional Items

Normally any material exceptional items are separately identified on the face of the CIES, in order to give a fair presentation of the accounts. Where these items are less significant they are included within the cost of the relevant service, however, details of all exceptional items are given in the Explanatory Foreword.

1.2.12 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

1.3 Policies primarily affecting the Balance Sheet

1.3.1 Property, Plant and Equipment (PPE), Heritage Assets and Intangible Assets

PPE - Recognition

All expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it brings benefits to the Council for more than one financial year. Expenditure that maintains but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as an expense when it is incurred.

PPE - Surplus Assets

Assets that are surplus to service needs but that do not meet the classification of Investment Property or Assets Held for Sale are classified as PPE 'Surplus', pending a decision on the future use of the asset.

PPE - Private Finance Initiative (PFI) and Similar Contracts

In accordance with the code, the Council accounts for its PFI contracts in accordance with IFRS 12 Service Concession Agreements. The Council is deemed to control the services that are provided under its PFI schemes and ownership will pass to the Council at the end of the contracts for no additional charge (with the exception of LIFT Joint Service Centres for which there is an option to purchase). Therefore, the Council carries the assets used under the contracts, on its Balance Sheet as PPE, where they are accounted for in the same way as the other assets. The original recognition of

assets is at fair value with a corresponding liability for the amounts due to the scheme operator.

The amounts payable to the PFI operators is comprised of 5 elements. The Fair Value of Services received during the year, Finance Cost, Contingent Rent, and Lifecycle replacement costs are posted to the CIES. The final element is a payment towards the outstanding liability on the balance sheet.

PPE - Finance Leases

Leases are classified as finance leases where substantially all of the risks and rewards incidental to ownership of the PPE transfer 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.

Finance Leases – where the Council is Lessee

The asset is matched by a liability for the obligation to pay the lessor. Any initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the PPE – applied to write down the lease liability and
- A finance charge which is debited to the Financing and Investment Income and Expenditure line in the CIES.

Finance Leases – the Council as Lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the carrying amount of the asset is written off and a long term debtor raised in the Balance Sheet.

Lease rentals receivable are apportioned between the principal repayment which reduces the debtor balance and interest which is credited to the Financing and Investment Income and Expenditure line in the CIES.

Heritage Assets – Recognition

Acquisitions are either purchased by the City Council or donated by a third party. Purchases are initially recorded at cost while donations are held at nil value until the assets related collection is externally valued within the heritage asset valuation cycle.

Items are omitted from the Balance Sheet where the Council is unable to obtain the valuations at a cost which is commensurate with the benefits it would provide to users of the financial statements.

Intangible Assets – Recognition

Intangible assets where the Council has control of the asset through either custody or legal protection for e.g. software licences, are capitalised at cost.

Measurement

Assets are initially measured at cost, i.e. purchase price plus any costs incurred in bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs. Assets are then carried in the Balance Sheet using the following measurement bases:

Section 10 (Appendix B) – Accounting Policies

- Infrastructure for e.g. roads and bridges and community assets for e.g. parks and land used for cemeteries and crematoria are generally valued at depreciated historical cost.
- Council dwellings are valued at Existing Use Value for Social Housing as defined in the Royal Institute of Chartered Surveyors valuation manual. The valuation exercise was carried out in accordance with guidance issued by the Department for Communities and Local Government in 2009/10 based on a full valuation of beacon properties by Chartered Surveyors Herbert Button & Partners and Freeman and Mitchell.
- Other land and buildings are valued at fair value, the amount that would be paid for the asset in its existing use. Where insufficient market based evidence of fair value is available because an asset is specialised in nature, Depreciated Replacement Cost has been applied.
- Finance leases are recognised at fair value or the present value of the minimum lease payments if lower.
- Heritage assets are reported in the Balance Sheet at market value and have been valued by an external valuer, the valuation dates range from 2001 to 2008. These external valuations have been carried out by a variety of qualified experts in the relevant field. These external valuations are adjusted annually by the Council to provide an internal valuation which is used until the collection is periodically externally revalued.
- All other assets are valued at fair value.

Assets included in the Balance Sheet at fair value are revalued, as a minimum, every 5 years. However, if there is evidence that there have been material changes in the value a further valuation will be undertaken.

Increases in valuations are credited to services within the CIES where they arise from the reversal of a revaluation or an impairment loss previously charged on the same asset. Any gains in excess of previous revaluation losses are matched by credits to the Revaluation Reserve.

Any revaluation losses are firstly written down against any previous revaluation gains held in the Revaluation Reserve. Where there are no previous revaluation gains, the losses are charged to the relevant service line of the CIES.

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.

De Minimis Levels

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet.

Description	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Impairment

Asset values are assessed at the end of each financial year for evidence of reductions in value. If identified either as part of this review or as a result of a valuation exercise, they are accounted for as follows:

- Where there is a balance of revaluation gains on the Revaluation Reserve for the relevant asset the impairment loss is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains the impairment loss is charged to the relevant service line of the CIES.
- For intangible assets there will be no Revaluation Reserve balance, so impairment losses are charged to the relevant service line of the CIES only.

Depreciation and Amortisation

Depreciation is provided for on all PPE assets. The annual charge to the CIES is calculated by dividing the value less any residual value of the asset by the estimated asset life. There is no depreciation on the assets in the year of acquisition, although a full year of depreciation is charged in the year of disposal. In accordance with recommended accounting practice, depreciation is not provided for in respect of freehold land, Heritage Assets, certain Community Assets and assets under construction.

Depreciation is calculated on the following bases:

- Dwellings – straight line allocation over the useful life on the building major components.
- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life.
- Infrastructure and Community – straight-line allocation generally over 25 years.
- Finance leases - over the lease term. If the lease term is shorter than the asset's estimated useful life and ownership of the asset does not transfer to the authority at the end of the lease period.
- Intangible assets – amortised on a straight line basis over the economic life, which is generally assessed to be 5 years.

Where an item of PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. A component value must be at least 20% of

the whole asset. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, the parts have been grouped to determine the depreciation charge. Componentisation only applies to enhancement and acquisition expenditure and revaluations carried out from 1st April 2010 with a de-minimis level of £3m.

1.3.2 Investment Property

Investment properties are those used solely to earn rentals and/or for capital appreciation and does not apply to properties which are being used to deliver services for the Council.

Investment properties are measured initially at cost. They are not depreciated but are revalued annually according to market conditions.

1.3.3 Long Term Investments

Interests in Companies and Other Entities

Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

Available-for-sale Financial Assets

Available-for-sale assets are valued at fair value. Where available-for-sale assets are quoted in an active market, the quoted market price is taken as fair value..

1.3.4 PPE 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. Assets held for sale are carried at the lower of carrying value and fair value less costs to sell.

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.

1.3.5 Inventories and Work in Progress

Stocks are largely valued at latest purchase price and any difference between this and actual cost is not considered to be material. Other less significant stocks are valued at average or actual cost.

1.3.6 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet initially at fair value and carried at their amortised cost. Interest payable is charged to the Financing and Investment Income and Expenditure line of the CIES. The amount shown in the Balance Sheet is the carrying amount of the loan at 31st March.

1.3.7 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet, initially at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the

carrying amount of the asset multiplied by the effective rate of interest for the instrument.

1.3.8 Provisions

Provisions have only been recognised in the accounts where there is a legal or constructive obligation to transfer economic benefits as a result of a past event and where such an amount can be reliably estimated. Provisions are charged to the CIES and, depending on their materiality, are either disclosed as a separate item on the Balance Sheet or added to the carrying balance of an appropriate current liability. When expenditure is eventually incurred, it is charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it is apparent that the provision is not required or is lower than originally anticipated, the provision is reversed and credited back to the relevant service

Where some or all of the payment required to settle a provision is expected to be recovered from another party, for e.g. from an insurance claim, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provisions are also set up for bad and doubtful debts, but are offset against the debtor balance on the balance sheet, rather than being included in the provisions figure.

1.3.9 Contingent Liabilities

Where a material contingent loss cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included in the accounts but is disclosed in the Explanatory Foreword/notes.

1.3.10 Contingent Assets

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

1.3.11 Defined Benefit Schemes (Local Government Pension Scheme)

For defined benefit schemes, pension fund assets are accounted for at fair value as follows:

- Quoted and unitised securities - current bid price
- Unquoted securities - professional estimate
- Property - market value.

Pension liabilities are measured on an actuarial basis, using an assessment of the future payments that will be made for retirement benefits earned to date by employees. This assessment includes assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted at the Balance Sheet date using a discount rate that takes into account the duration of the employer's liabilities and the requirements of IAS19. The discount rate chosen is the annualised yield at the 21 year point on the Merrill Lynch AA rated corporate bond curve.

1.3.12 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Transfers to and from reserves are shown in the MIRS and not within services. Expenditure is charged to the CIES and not directly to any reserve. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and are not usable resources for the Council

1.4 Policies Affecting the Cash Flow Statement

1.4.1 Cash and Cash Equivalents

The Council's Cash Flow Statement reflects the movements in cash and cash equivalents during the year and is shown net of bank overdrafts that are repayable on demand. Cash is represented by cash in hand and deposits with the Council's own bank. Cash equivalents are deposits with financial institutions repayable without penalty on notice of not more than 24 hours. This includes Council deposits in other UK bank call accounts and Money Market Funds

1.5 Policies used to account on a Funding Basis

In a number of areas statutory provisions require the Council to account for transactions relating to the General Fund (and subsequently the amount to be raised from Council Tax) differently from the treatment required by IFRS. In each case the adjustment required is offset by a transfer to a specific reserve. The adjustments are shown within the MIRS as Adjustments between accounting basis and funding basis under regulations.

1.5.1 Depreciation, amortisation, revaluation gains and losses and impairment

Instead of these charges the Council is required to make an annual provision from revenue to contribute towards the reduction in its borrowing requirement (at least 4% of the adjusted Capital Financing Requirement, excluding amounts attributable to HRA). The difference between the two transactions is adjusted with the Capital Adjustment Account.

For the HRA, depreciation is replaced by a contribution to the Major Repairs Reserve.

1.5.2 Gains and Losses on Sale of Assets

Where sale proceeds are in excess of £10k, the gain or loss on sale or disposal (including finance leases) is removed from the CIES and adjusted with the Usable Capital Receipts Reserve (sale proceeds) and the Capital Adjustment Account (carrying value in the Balance Sheet).

A proportion of receipts relating to HRA disposals is payable to the Government and a corresponding sum is therefore transferred back from the Capital Receipts Reserve to the General Fund.

1.5.3 Capital grants

Capital Grants are reversed out of the General Fund to the Capital Grants Unapplied Account. When the grant is applied to fund capital expenditure, it is posted to the Capital Adjustment Account.

1.5.4 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Certain items of expenditure and related grant funding charged to the CIES under IFRS may be treated as capital for funding purposes. A transfer is made between the General Fund and the Capital Adjustment Account reserve for these items.

1.5.5 Termination Benefits - Pension Enhancements

Pension costs calculated according to IAS 19 are replaced by the actual pension payment for the year. The difference between the two transactions is transferred between the General Fund and the Pensions Reserve

1.5.6 Financial Liabilities

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund to be spread over future years. The gain or loss is spread over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The difference between the two approaches is transferred between the General Fund and the Financial Instruments Adjustment Account.

1.5.7 Loans and Receivables

Statutory provisions allow the General Fund to be charged with the actual interest receivable for the financial year. The adjustment to the CIES for soft loans is therefore removed and adjusted with the Financial Instruments Adjustment Account.

1.6 Accounting Policies not relevant or not material

The accounting policies are reviewed each year to assess whether it is appropriate for individual policies to be included. There are a number of accounting policies that have not been included above, because the statements are not materially affected by their implementation. These policies include:

- Use of capital receipts to fund disposal proceeds
- Intangible Assets – Recognition of website development and other internally generated assets
- Derecognition or impairment of available for sale financial assets, loans and receivables
- Valuation of available for sale financial assets other than at quoted market price
- Restructuring of loan portfolios
- Treatment of soft loans

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AUDIT COMMITTEE - 25 April 2014

Title of paper:	<u>INTERNAL AUDIT ANNUAL REPORT 2013/14</u>	
Director(s)/ Corporate Director(s):	Acting Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Internal Audit 0115 8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note the audit work completed during the year.	
2	Note the Head of Internal Audit's Annual Opinion.	
3	Select up to two audits from Appendix 1 for examination at the November meeting	

1 REASON FOR RECOMMENDATIONS

- 1.1 This report outlines the work of the Internal Audit (IA) service at the end of the fourth quarter 2013/14. The report includes the Head of Internal Audit's (HoIA) annual opinion on the effectiveness of the internal control systems operating within the City Council and its significant partnerships.
- 1.2 The Accounts and Audit Regulations 2011 state that local authorities should maintain an adequate and effective system accounting for the resources it uses and an effective system of internal control.
- 1.3 The Audit Committee's Terms of Reference include receiving an annual report on the work of IA.
- 1.4 The Public Sector Internal Audit Standards (PSIAS) require the responsibility for the management of Internal Audit to be set with the Board. In practical terms this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City council.
- 1.5 The PSIAS require the HoIA to deliver an annual audit opinion and report which can be used to inform the Annual Governance Statement. The annual report should include a summary of the work supporting the opinion.

2 BACKGROUND

- 2.1 The IA service impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes and is an important part of the Council's governance and control framework.

- 2.2 The coverage set out in the 2013/14 Audit Plan has been substantially achieved and the associated Performance Indicator targets have been met.
- 2.3 The assurance gained from this activity together with that gained from a review of other control and assurance mechanisms, has enabled the HoIA to give a reasonable assurance that the internal control systems are operating effectively within the Council and its significant partnerships.

2.4 **REVIEW OF THE YEAR**

2.4.1 **Reports to the Audit Committee**

An important part of the IA service is to inform the Audit Committee about the adequacy of the Council's governance and internal control systems and an important role of the Committee is to oversee the performance of the IA service. **Table 1** summarises the information the Committee has received from the HoIA during the last year.

TABLE 1: REPORTS FROM HEAD OF INTERNAL AUDIT	
Report	Purpose
Annual Governance Statement	Informed councillors about the overall control environment.
Internal Audit Quarterly Reports	Allowed the Committee to review the performance of the service.
Internal Audit Reports Selected for Examination	Allowed councillors to gain a detailed view of some of the services reviewed and gain a clear insight into how and why work was undertaken.
Role of Audit Committee and Work Programme	Helped the Committee to determine a work programme aligned to its Terms of Reference.
Internal Audit Charter	Informed the Committee of the rationale underpinning the service, the standards it would meet, and the way it interfaced with the City Council and its partners.
Counter Fraud Strategy and Protecting the Public Purse	Informed councillors of national trends and of policies and procedures put in place by the I to address the risks of fraud.
Internal Audit Annual Plan Strategic Plan	Informed councillors of the impending work programmes and how this and future work impacted on the Council Plan.
Internal Audit Annual Report	Gave the Committee an overview of the work undertaken by IA and gave the HoIA's opinion in respect of the Council's overall control environment.
Updates on internal audit plans and work for East Midlands Shared Services (EMSS)	Informed councillors of the IA work being done during the implementation of the project and also that planned for the first year of East Midlands Shared Services (EMSS) operations
Committee Member training	Overview for the Committees regarding the committee governance framework in place and the Council's associated assurance arrangements

2.5 IA Activity

The following outlines the IA work completed in 2013/14.

2.5.1 Local Performance Indicators

Table 2 illustrates how the service has met its key quality and output objectives as reflected in its Charter and agreed by the Committee.

TABLE 2: PERFORMANCE OUTTURN				
Indicator		Target	Actual Year	Comments
1.	% of all recommendations accepted	95%	99%	Above Target
2.	% of high recommendations accepted	100%	100%	Target Achieved
3.	Average number of working days from draft agreed to the issue of the final report	8 days	4 days	Above Target
4.	Number of key / high risk systems reviewed	15	15	Target Achieved
5.	% of colleagues receiving at least three days training per year	100%	100%	Target Achieved
6.	% of customer feedback indicating good or excellent service	85%	89%	Above Target

2.5.2 Resources Used

Colleagues in post are professionally qualified and/or have extensive practical experience in the public sector. All colleagues participated in personal development reviews and received at least three days training according to business needs. The 2013/14 net budget for the service was £319,799. The predicted outturn after adjustments for 2013/14 is in accordance with the budget.

2.5.3 Service Quality and Compliance with PSIAS

The service works to a Charter endorsed by the Audit Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. It has adopted, and substantially complied with the principles contained in the PSIAS, and has fulfilled the requirements of the Account and Audit Regulations 2011 and associated regulations in respect of the provision of an IA service.

The service has internal quality procedures and is ISO9001:2008 accredited.

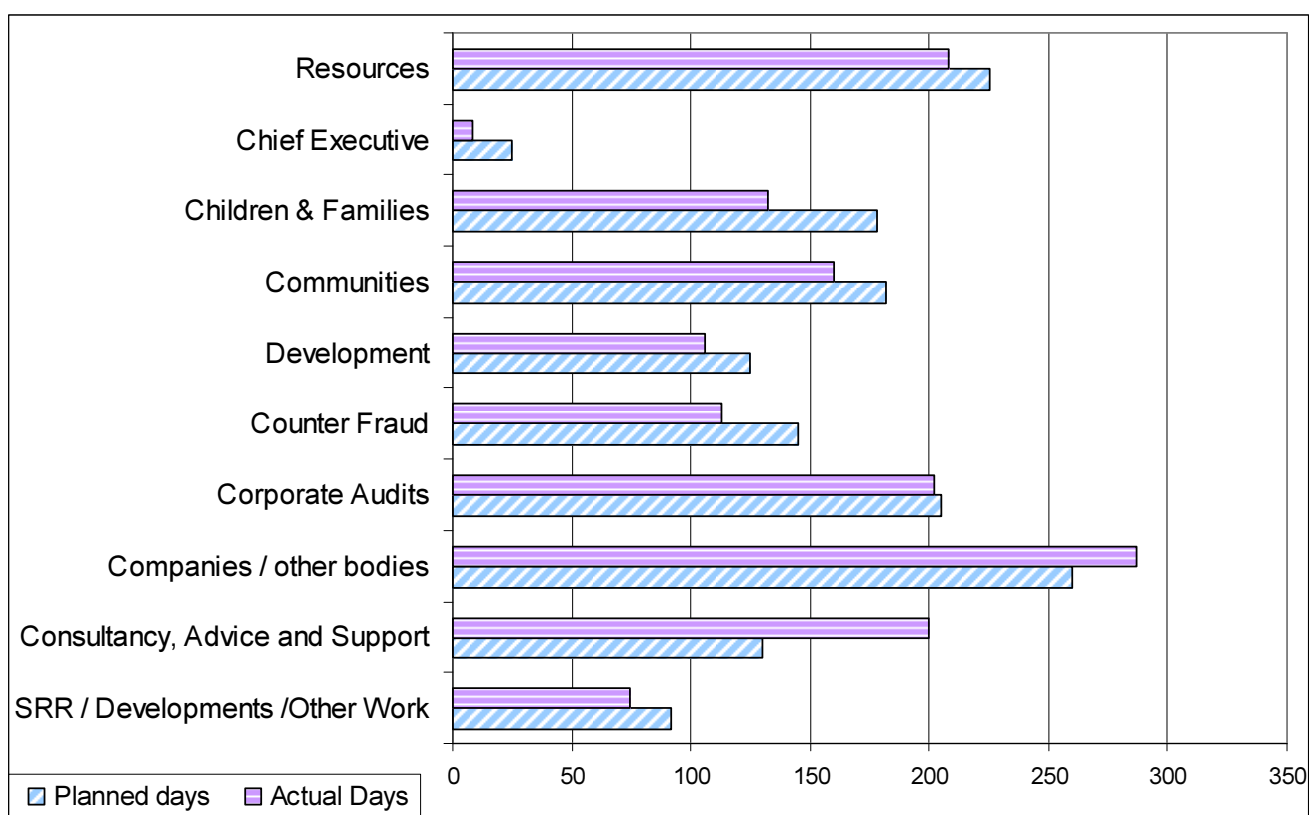
2.5.4 Audit Plan

The Audit Plan and quarterly monitoring reports were presented to the Committee throughout the year, detailing progress against the Plan.

Table 3: Plan Outturn		
Total Planned Days	Actual End of Year	Comments
1567	1490	95% Plan Days Achieved – within accepted practice

The final outturn for 2013/14 is given in **Table 3** above and the audit coverage across departments and other service areas is shown in **Diagram 1** and **Appendix 3** gives a summary of the outturn against planned resources. This diagram illustrates that there was no significant variation from plans endorsed by the Committee.

Diagram 1 Internal Audit Plan Against Actual 2013/14



Appendix 1 and Appendix 2 give details of the reports issued in the final quarter of the year. These appendices are the final reports in the quarterly IA performance monitoring cycle undertaken by the committee. They contain details of the recommendations made and levels of assurance given.

Actual planned days have been sufficient to substantially complete the Audit Plan. **Appendix 3** contains the summarised plan and outturn. In accordance with normal practice, the plan was flexed during the year and changes were reported to the Committee.

2.5.5 Recommendations analysis by risk

Table 4 shows the total of all recommendations made in the period. Overall recommendations performance is above the IA target of 95%.

TABLE 4: RECOMMENDATIONS ACCEPTED DURING YEAR		
	2013/14	
	All	High
Total recommendations made	306	116
Rejected	4	0
Total recommendations accepted	302	116
Percentage accepted	99%	100%

2.6 Head of Audit's Annual Opinion 2013/14

The PSIAS require the HoIA to give an opinion and report to support the City Council's Annual Governance Statement. Corporate Directors are responsible for ensuring that proper standards of internal control operate within their directorates. IA reviews these controls and gives an opinion in respect of the systems and processes put in place. The IA service works to a risk based Audit Plan agreed with Corporate Directors and agreed by the Committee.

The audit work concludes with a report detailing the findings and giving an overall level of assurance.

The 2013/14 Audit Plan has been completed in accordance with the PSIAS and other professional standards applicable to the service. The IA service has undertaken reviews of the internal control procedures in respect of the key systems and processes of the Council and its partners, where appropriate. The service has operated within professional standards as PSIAS

Planned work has been supplemented by ad hoc reviews in respect of irregularities and other work commissioned by Corporate Directors or the partners of the City Council and the work undertaken by external review agencies. Reports in respect of all reviews have been issued to the responsible colleagues, together with recommendations and agreed action plans. Further, each quarter a list of reports has been sent to the Committee for consideration.

2.6.1 Level of Assurance Given in Audit Reports

The committee sees a list of all audit reports, level of assurance and the associated high risk recommendations as part of its annual work programme. Below is a summary of the work reported in the year.

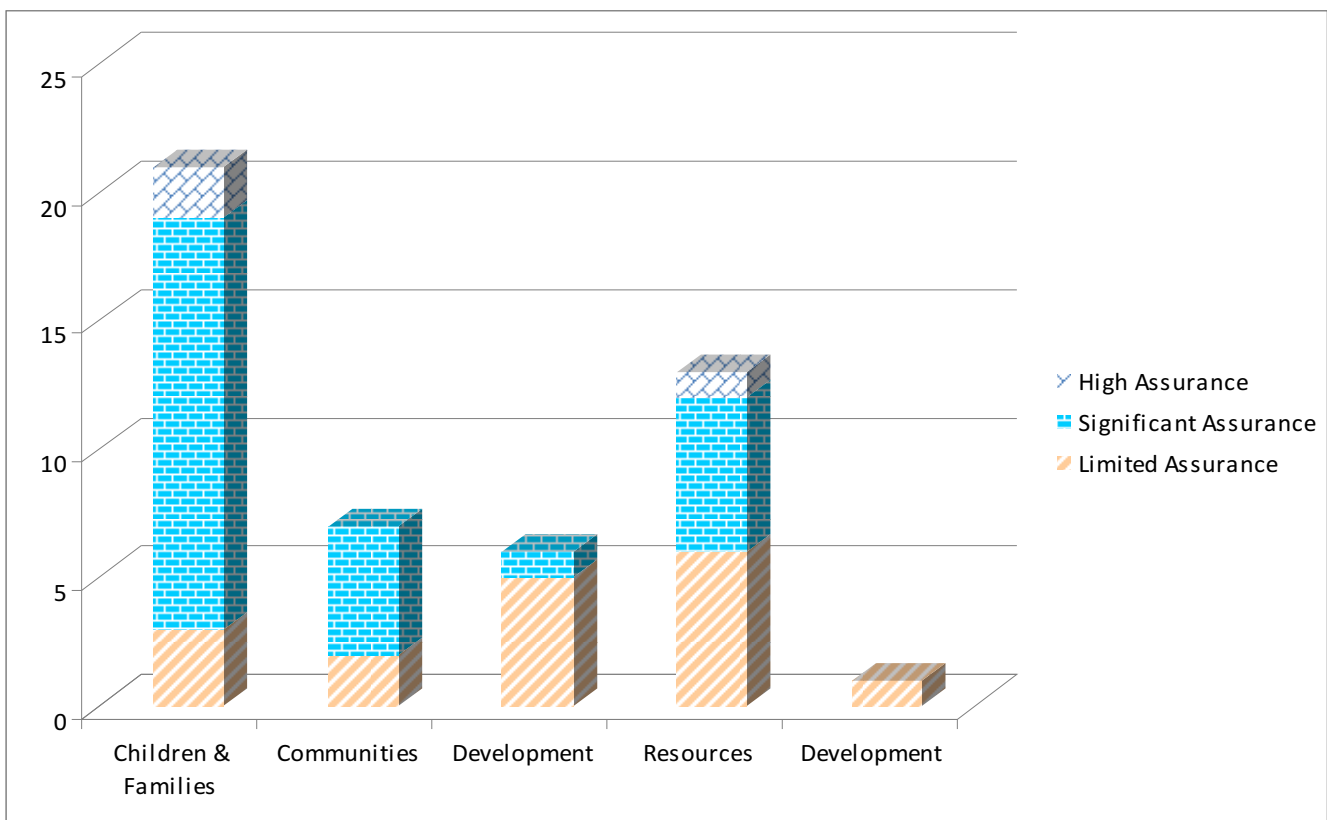
The level of assurance given is derived from the findings based on the following definitions:

TABLE 5 : DEFINITIONS OF ASSURANCES GIVEN IN IA REPORTS	
Level of Assurance	Definition
High	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.

Significant	Significant assurance that there is a generally sound system of control designed to meet the organisation’s objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.
Limited	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation’s objectives at risk in the areas reviewed.
No	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation’s objectives in the areas reviewed.

Diagram 2 illustrates the assurance given to Corporate Directors during the year.

Diagram 2: IA assurances given by department 2013/14



A level of assurance was given in all the reports issued and no report was issued with “no assurance”. The diagram reveals a consistent picture of assurance across the directorates. The assurance given informs Corporate Directors’ opinion of their corporate governance arrangements and ultimately helps them give assurance for the Annual Governance Statement. For those areas receiving significant and limited assurances, recommendations were made to address the issues and risks identified. The HoIA judges that the action taken to date to address these issues has been proportionate and timely enough to mitigate the risks involved.

2.6.2 Recommendations made

Recommendations are prioritised according to their risk rating in accordance with the definitions in the table below.

TABLE 5 : DEFINITIONS OF RISK PRIOTIES USED IN IA REPORTS	
Priority	Definition
High	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low	The audited body is not exposed to any significant risk, but the recommendation merits attention.

IA monitors the progress made by clients in implementing the recommendations and the position for the year is summarised in **Diagram 3**.

Diagram 3: Progress on All Recommendations

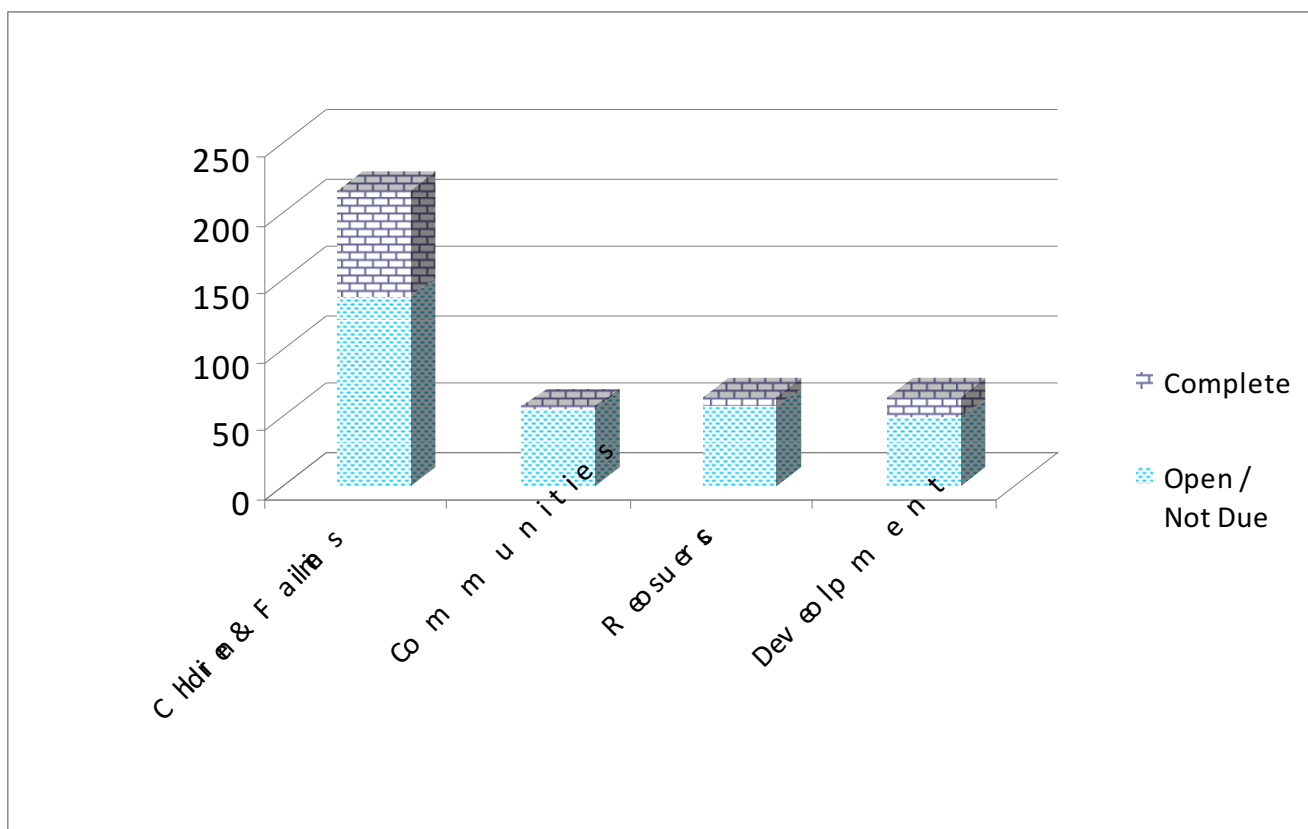
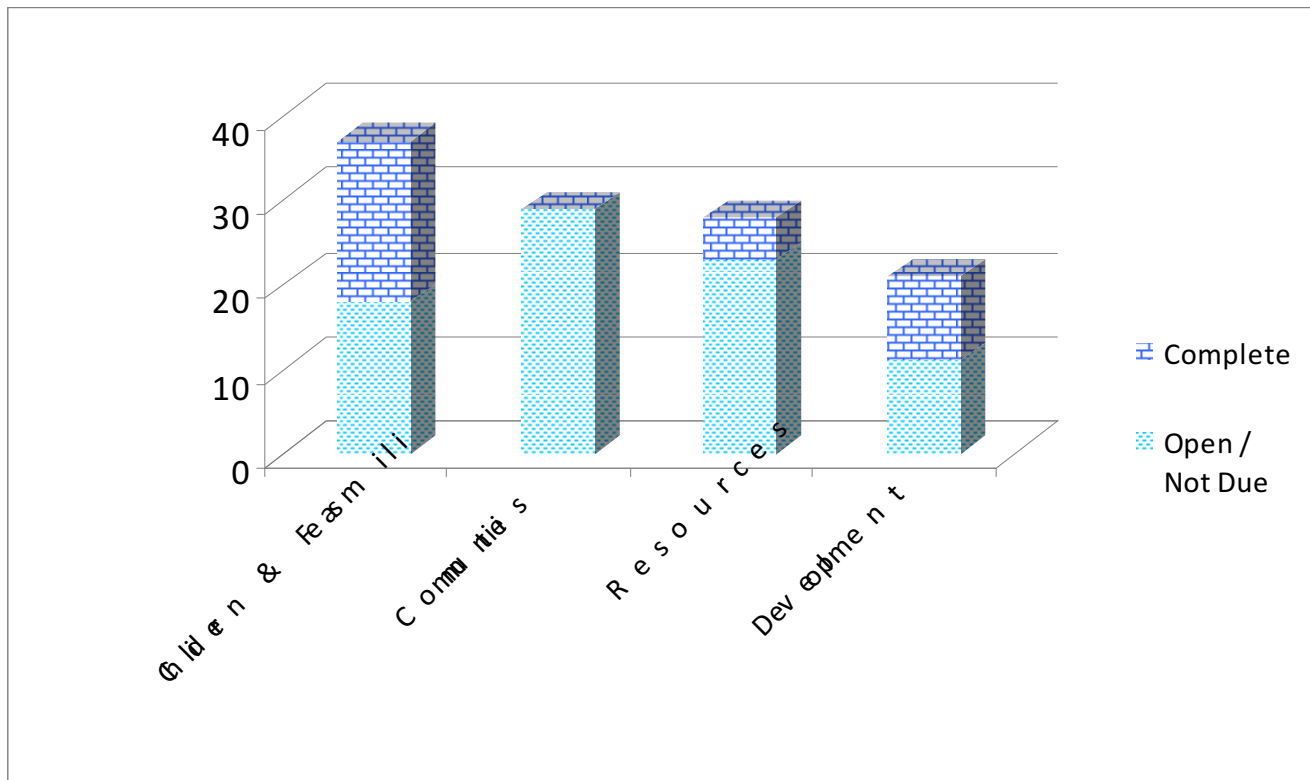


Diagram 4 illustrates the position on high risk recommendations made, analysed by client directorate. The Committee sees all reports issued and the associated high risk recommendations as part of its quarterly review of IA performance. Systems are in place to monitor these recommendations, and those outstanding beyond their target date are reported to the responsible colleague nominated in the agreed action plans for their follow up.

Diagram 4: Progress on High Risk Recommendations



The HoIA has constantly reviewed the progress made on these high risk recommendations and has concluded that Corporate Directors have acted appropriately to address the recommendations reported to them

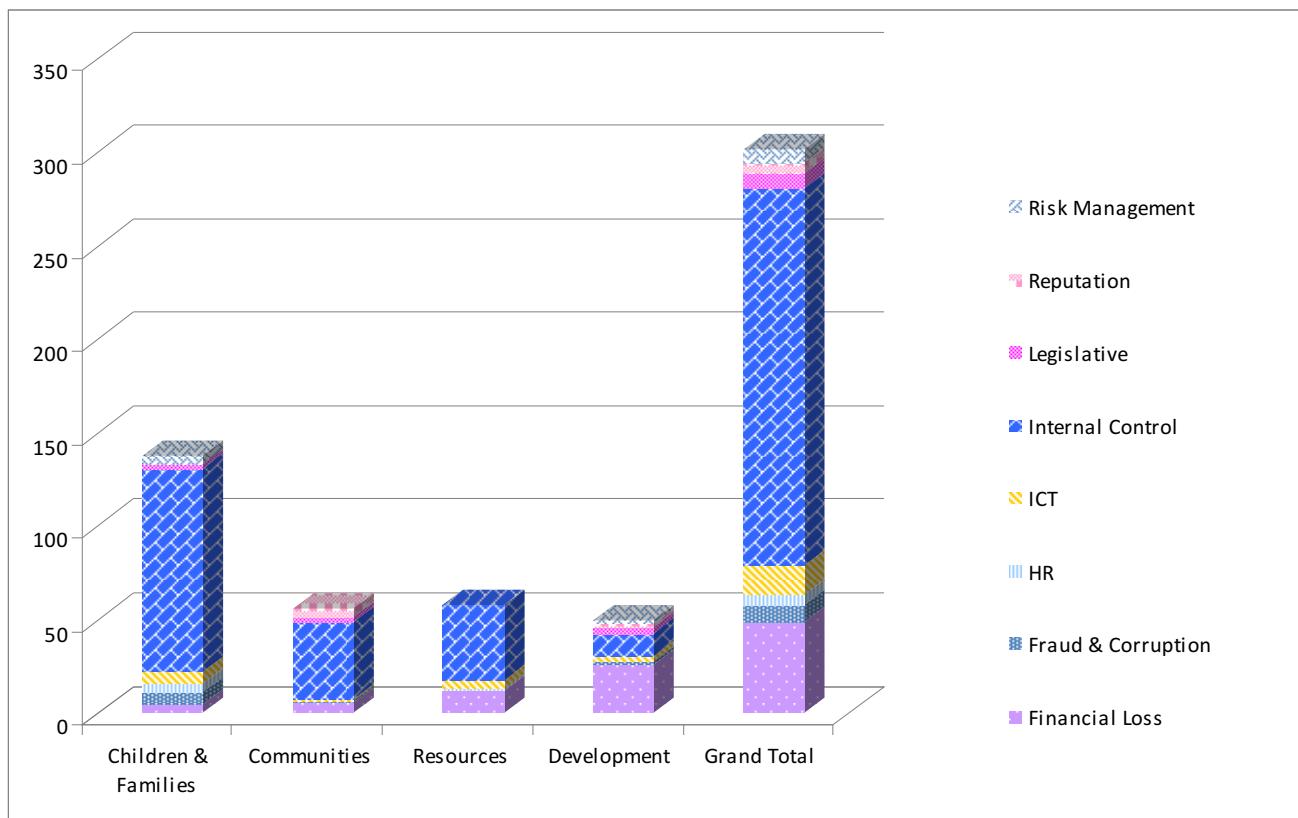
2.6.3 Risk Themes

IA recommendations are categorised into themes to reflect the main element of the weaknesses they are trying to address.

Diagram 5 illustrates that the distribution of the main themes of the recommendations made. The diagram shows that a similar pattern exists across departments the main theme being the issues pertaining to the operation of internal controls.

The recommendations made to address the issues underpinning the themes strengthen the control environment and help the Council use its resources in the most appropriate way to achieve its objectives.

Diagram 5: Risk Themes



2.7 Opinion

2013/14 saw significant change, challenges and risks experienced by the Council, including the operational commencement of its significant partnership for the delivery of HR and financial services with Leicestershire County Council (EMSS). The HoIA has continuously reviewed the risks associated with the Council's operations and has allocated the necessary resources, via the audit plan, to form his opinion on the Council's governance arrangements. In forming his opinion the HoIA has reviewed all the IA reports issued in 2013/14 and drawn upon external sources of assurance from independent review bodies and internal assurance mechanisms to identify and assess the key control risks to the Council's objectives.

The HoIA has concluded that although no systems of control can provide absolute assurance, nor can IA give that assurance, he is satisfied that, on the basis of the audit work undertaken during the 2013/14 financial year, there have been no significant issues (as defined in the CIPFA Code of Practice) reported by IA. Furthermore, on the basis of the audit work undertaken during the 2013/14 financial year, covering financial systems, risk and governance, the HoIA is able to conclude that a reasonable level of assurance can be given that internal control systems are operating effectively within the Council, its significant partners and associated groups.

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2011
- Audit Plan 2013/14
- CIPFA SOLACE Delivering Good Governance in Local Government
- Public Sector Internal Audit Standards 2012

List of Appendices

- Appendix 1** List of all reports issued during 1st January 2014 to 31 March 2014 with analysis of recommendations by risk
- Appendix 2** List of final Audit reports issued 1st January 2014 to 31 March 2014
- Appendix 3** Summary Internal Audit Plan / Outturn 2013/14

All reports issued in Q4 with Analysis of Recommendations by risk

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
Joint Funding of Care	<p>The agreed scope covered the following:</p> <ul style="list-style-type: none"> • The process for identifying the need for joint funding and continuing care arrangements • The approval process • The system by which income is collected and expenditure is approved 	Significant	0	7	0		
Hemphill Hall School	<p>The purpose of this review was to assess the standard of financial management operating within the school. The following areas were examined during the course of the audit.</p> <ul style="list-style-type: none"> • Leadership & Governance • People Management • Policy & Strategy • Processes • Purchasing 	Significant	2	1	0	A1308 (02)	For all purchases over £1,000, the school should ensure that reasonable steps have been taken to obtain value for money. The most straightforward method is by obtaining at least 3 alternative quotations.

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
	<ul style="list-style-type: none"> • Invoice Processing • Banking Arrangements • Voluntary Funds • Asset Register • Implementation of Single Status 						
						A1311 (03)	For all purchases over £10,000, the school should obtain at least 3 alternative quotations. These should be considered by the Finance and General Purposes Committee before deciding which supplier to award the contract to. This should be documented in the Governors minutes.
Waste Collection 2014	<p>The scope of this review was limited to;</p> <ul style="list-style-type: none"> • Identifying the procedures and controls in place for dealing with overtime. • Establishing the systems that are in place for performance management. 	Significant	3	4	0	A1291 (05)	An investigation should be carried out into the excessive driving hours and explanations sought.
						A1292 (06)	An investigation should be carried out into the time anomalies highlighted in

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
							Appendix C.
						A1309 (07)	Written procedures should be put in place for all areas of work covered by the audit
Council Tax 2014	<p>The agreed scope covered the following:</p> <ul style="list-style-type: none"> • The review of the annual billing processes. • Identification, notification and updating of amendments to property bandings and rateable values of non domestic properties. This included the processes for updating changes to the systems and the reconciliation of property numbers, bandings and rateable values between the Council Tax and Business Rate systems with those reported by the Valuation Officer. • The application of reliefs, in accordance with legislation, and the review programmes in place for ensuring continued eligibility. • The procedures and processes for the follow up of accounts with arrears together with an overall review of the collection position. This aspect included review of the control and authorisation processes applied to write-offs. • Review of the controls over receipts and their reconciliation with Radius and the 	Significant	0	3	0		

Audit	Scope	Level of Assurance	Recommendation					
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations	
	direct debit bank statement. This included review of suspense operation and also the control processes operated over refund transactions.							
Capital 2014	<p>The scope of this review was limited to;</p> <p>(1) A walkthrough of the processes for capital additions and disposals.</p> <p>(2) A review of the process to arrive at the capital programme for 2013/14 to ensure transparency, that approvals have been obtained, and that the programme supports corporate aims.</p> <p>(3) A review of the process for reporting on capital spend against the programme. This to include both reporting at project level financial status and scheme progress and at overall capital programme level to the Executive Board on a quarterly basis.</p> <p>(4) A review of the development of monitoring and control through the Oracle system.</p> <p>(5) A review of the programme of reporting to Project Health Board and Corporate Delivery Board on capital projects.</p> <p>(6) Confirmation that major capital projects' funding has been risk assessed and that where the project leads to future revenue expenditure, its funding has also been</p>	Limited	4	0	0	A1294 (2013/14 01)	<p>The council should consider using an alternative model for contracting with agents concerning acquisition and letting of property or ensuring that if agents are used they add value to the process.</p> <p>In addition, the council should consider preparing and obtaining approval for a land acquisition and disposal policy which could form part of a wider Capital or Investment Strategy</p>	

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
	<p>risk assessed.</p> <p>(7) Reconciliation of the fixed asset register to the general ledger.</p> <p>(8) Reconciliation of the fixed asset register to the corporate property database.</p> <p>(9) A review of the process for verification and valuation of assets.</p> <p>(10) Review of the process for updating the central contracts register and for identifying service concessions or embedded leases within significant new contracts.</p>						
						A1296 (2013/14 02)	The preparation of advice and an estimation of the market value of land and buildings either designated for disposal or identified for acquisition should be undertaken by professionally qualified (i.e. RICS) valuers or the work undertaken should be supervised and signed off by a professionally qualified valuer.
						A1297 (2012/13 01)	In line with Financial Regulations (Paragraph A.11) a Capital Strategy should be put in place and should be linked with other key documents such as an Asset

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
							<p>Management Plan. Along with the Strategic Choices process this should ensure that the Council's Capital Programme is developed in line with current plans and available resources.</p> <p>The new Capital Strategy should require reporting of approvals to the capital accounting team and would ensure that projects are entered onto the Programme in a timely fashion.</p>
						A 1298 (2010/11 01)	<p>It is recognised that workforce reductions, reorganisations and the focus on the Workplace Strategy have all contributed to the lack of an AMP; however the need to have a strategic overview of the council's assets which is aligned with the Medium Term Financial Plan and which supports the Capital Programme should be addressed as soon as possible.</p>
Cash Collection 2014	<p>The areas covered by our work were as follows:-</p> <ul style="list-style-type: none"> The procedures for cashing up and 	Limited	4	5	3	A1212 (03)	In order to ensure compliance with Corporate Financial Rules, Cashiers should be

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
	<p>banking. This included the collection and handover of bankings under the security contract.</p> <ul style="list-style-type: none"> • Reconciliation procedures • Refunds • Floats held on site • Access controls over Radius • Insurance arrangements • The arrangements for receiving cash and cheques by hand and by post in the Mailroom at Loxley House. This also included the arrangements for transporting these to the Central Library. 						<p>instructed to:</p> <ul style="list-style-type: none"> • Regularly work on unidentified cheques <p>Bank all cheques at least weekly as the payment types become apparent.</p>
						A1216 (04)	<p>There should be a regular supervisory review of the work of the Cashiers (at least weekly) The review should include cashing up and banking, reversals, operation of the floats, any unders and overs and any other areas where there is potential for theft and loss. The Supervisor should sign and date any records as evidence of the review.</p>

Audit	Scope	Level of Assurance	Recommendation				
			High	Medium	Low	Action Ref (Report ref)	High Risk Recommendations
						A1218 (08)	A supervisor should require Cashiers to record the reasons for reversals in full and the supervisor should complete a weekly review of these reversals.
						A1228 (11)	The reconciliation of Radius to the Council's bank account should be brought up to date as soon as possible.
Kangaroo Ticket Sales (1413OT)	This review looked at the management arrangements for the sale of Kangaroo tickets.	Limited	2	4	0	A1248 (1)	The new tills allowing Kangaroo scratch card transactions to be receipted through them should be installed as soon as possible.
						A1252 (5)	<p>The Public Transport Team should devise a process for monitoring the numbers of scratch card issued to operators with those returned as sold. This should include the Broadmarsh Travel Centre.</p> <p>Discrepancies should be queried when new stocks are requested by the operator but the sales returned by them do not support this.</p>

Final Audit Reports issued 1st January to 31st March 2014

Department	Division	Audit	Assurance level	Recommendations Accepted		
				High	Medium	Low
Children & Families	Adult Assessment	Joint Funding of Care	Significant	0	7	0
	Adult Assessment Total			0	7	0
	School	Hempshill Hall School	Significant	2	1	0
	School Total			2	1	0
Children & Families Total				2	8	0
Communities	Neighbourhood Services	Waste Collection 2014	Significant	3	4	0
	Neighbourhood Services Total			3	4	0
Communities Total				3	4	0
Corporate Services	Strategic Finance	Council Tax 2014	Significant	0	3	0
		Capital 2014	Limited	4	0	0
		Cash Collection 2014	Limited	4	5	3
	Strategic Finance Total			8	8	3
Corporate Services Total				8	8	3
Development	City Planning & Transport	Kangaroo Ticket Sales (1413OT)	Limited	2	4	0
	City Planning & Transport Total			2	4	0
Development Total				2	4	0
Grand Total				15	24	3

2013/14 INTERNAL AUDIT PLAN VERSUS OUTTURN

Function/ Client	Planned days	Actual Days
Corporate Services	225	208
Chief Executive	25	8
Children & Families	178	132
Communities	182	160
Development	125	106
Corporate Audits	205	202
Counter Fraud	145	113
Companies / other bodies	260	287
Consultancy, Advice and Support	130	200
SRR / Developments /Other Work	92	74
Total Days	1567	1490